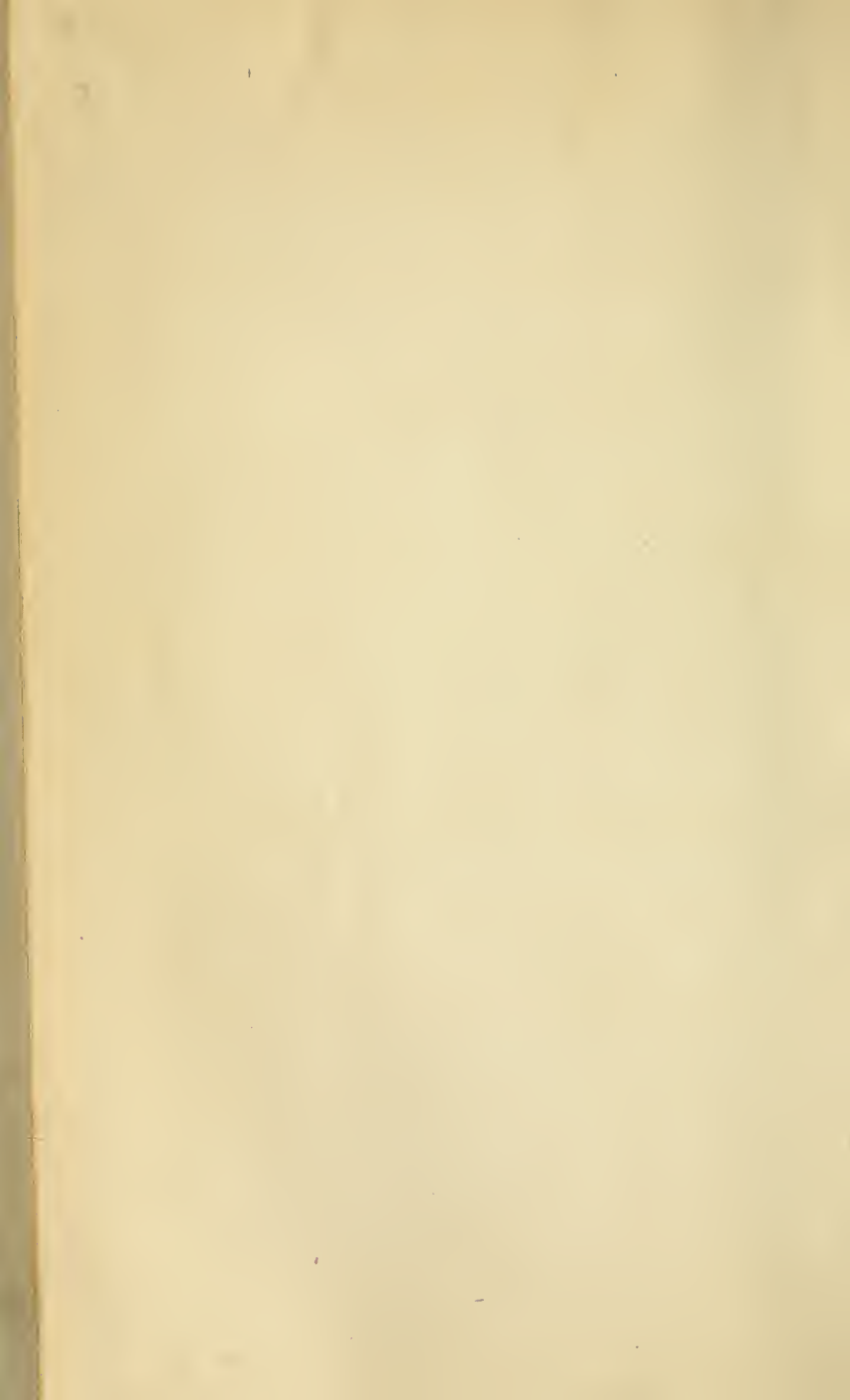


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AN

EXAMINATION

OF THE

BANK CHARTER QUESTION,

WITH AN

INQUIRY INTO THE NATURE OF A JUST STANDARD OF VALUE,

AND

SUGGESTIONS FOR THE IMPROVEMENT OF
OUR MONETARY SYSTEM.

BY

G. POULETT SCROPE, Esq., F.R.S., &c.

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THE following pages were written and put into type, as the experienced reader will probably detect, for a periodical journal; but it was found impossible to include the whole subject within the space afforded by such a medium of publication, and the writer was unwilling to treat it by piece-meal. In offering the Essay to the public in an independent form, he has thought it right to affix his name—not from the presumption that it will add any weight to his arguments, but simply to show that he is not ashamed to affiliate them.

Castle Combe, January 1, 1833. •

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AN
EXAMINATION,
&c. &c.

CHAPTER I.

Necessity of a Revisal of our Monetary System.

THE approaching termination of the charter of the Bank of England has once more opened up the great question as to the fittest instrument of exchange for a civilized and commercial community. The publication of the evidence taken before the late Secret Committee of the House of Commons, and the general discussion which it has occasioned in all the periodical writings of the day, have prepared the public mind for the consideration of the subject; and if they have not exhausted its depths, have sufficed, at least, to diffuse a general sense of its magnitude and importance.

The question immediately before parliament is indeed simply that of the renewal or refusal of the exclusive privileges of the bank; and there are persons who, whether from an aversion to the trouble of an extensive inquiry into a subject of considerable abstruseness, or a general dislike to innovation, or in some cases, perhaps, from more questionable motives, assert that the general topic of currency ought not to be entered upon at all; and would confine the attention of the legislature to the single question of the greater or less restrictions to which the banking system of the metropolis ought to be subjected.

But the banking system of London regulates and determines the entire currency of the kingdom. The notes of the Bank of England compose five-sixths of our whole paper-circulation, and the vaults of the Bank of England are practically the sole source of our metallic circulation. How then is the question of the Bank of England monopoly to be separated from that of our general currency, which, with a comparatively trifling exception, is doled out to us exclusively by that company? And on what principles is this great question to be argued and decided, if not on the general principles of currency? I therefore shall not believe, until I witness the fact, that in the present enlightened age, when the property and future prospects of every individual in the country,—the welfare or depression of every branch of productive in-

dustry, and the prosperity or decay of the empire,—are acknowledged on all sides to be wholly dependent on the character and supply of its circulating medium,—that under these circumstances, and with nothing to justify extraordinary haste, the legislature of this commercial state will again proceed to tie down its exchanges to a rigid and absolute monetary system for a term of years, upon a narrow consideration of private views and interests, and without reference to those general principles by which alone the comparative influence of different circulating media on the public welfare can be determined.

It is indeed essential that this all-important question should undergo, on the present occasion, a thorough, mature, and impartial examination. Severely has the country suffered, through every fibre of its complicated interests, from the precipitate and ill-considered manner in which similar questions have been too frequently disposed of. Warned by the fatal consequences of those errors—now universally recognized as such—let not the legislature again be seduced into a hasty decision, under the influence of habit or prejudice, and for want of taking an enlarged, comprehensive, and accurate view of the subject. Let every one, who is called upon to decide a matter of such vital moment, beware of building upon false premises : let him resort to first principles, and not move a step but with a solid conviction of having made the ground good behind him. Shall he dare to determine what is in future to constitute the *money*—that is, the general medium of exchange and measure of value—of this vast commercial empire, without being certain that he has a clear understanding of the real nature and properties of money, or of the qualities essential to the composition of a just and true medium of exchange ; perhaps, without any sound or definite ideas of the characteristics of value itself ?

That some who are reckoned among the oracles of science are still in the dark upon these elementary points, any one may easily convince himself who will turn to the various works upon political economy, and observe the contradictory and most unsatisfactory methods in which these different matters are there treated of—I cannot say, explained. That the practical men of the day, who are personally most conversant, from the nature of their business as bankers or merchants, with the management and use of the circulating medium, are not, perhaps, much more united in opinion as to the fundamental principles on which any questions concerning it can alone be properly discussed, must, I think, be equally apparent to such persons as have read through the evidence given before the late Secret Committee on the Bank Charter, by the twenty-two gentlemen selected from this class as

the most competent to afford useful information on the subject of inquiry. It is for these reasons that before I enter, as I propose doing in the following paper, into an analysis of that evidence, and an examination of the propriety of the renewal of the charter, I will beg the attention of my readers while I endeavour, in as concise and clear a manner as the nature of the subject may permit, to recall to their recollection some of the elementary principles respecting the measure of value and the medium of exchange; and to offer some remarks which, it is hoped, may prove not unserviceable at the present moment, in eliminating those prejudices and false views by which the practical question now submitted to the legislature is in many minds obscured and mystified. Some of the propositions which I think it necessary to prove, will perhaps appear mere truisms; but those who have studied the subject well know that there are none which have not been keenly disputed; and that on many, if not all of them, the most contradictory doctrines are even yet maintained.

The *business* or commerce of all men in society, consists really of an interchange of all things possessing value between their respective owners. But as their direct exchange by barter would be nearly always in the highest degree inconvenient—in most cases impracticable—their exchange is effected indirectly by the use of, or by reference to, some particular commodity in which the commodities to be exchanged may be estimated, and their respective values compared. The particular commodity thus selected as the standard measure of the value of other things, and the common medium of their exchange, whatever it may be, is called *money*.

It would be needless to repeat here the well-known qualities which have obtained for the precious metals their adoption as money by every civilized community. ‘They became universal money,’ as was observed by Turgot, ‘not in consequence of any arbitrary agreement among men, or of the intervention of any law, but by the nature and force of things.’ It is, however, worth remarking, that the qualities which have caused gold and silver to be adopted and retained in such general use as money, are exclusively those which fit them for a convenient *medium of exchange*, viz. their divisibility, fusibility, durability, facility of transport, and perfect sameness; not those which would render them most serviceable as a *standard of value*. There is one quality, and but one, which it is of supreme importance for a commodity to possess, if it is to form a correct measure of value; namely, that it should itself be invariable in value. When employed as a standard, it is for that purpose *conventionally assumed* to be invariable; being taken as a fixed point from which to measure the variations of other things; and if this should not be the fact—if the assumption prove untrue—it is evident that in whatever degree the commodity itself varies

in value, in that degree it is a false and treacherous measure of the value of other things. If a yard or a pound were not invariable, or very nearly so, in length and weight, they would be but faithless measures of length and weight. In fact, both metallic rods and weights do vary in length and weight, with changes in temperature and the specific gravity of the air; but these variations are confined within such narrow limits, and are so wholly inappreciable, except when the most minute accuracy is required for philosophical purposes, as to be safely disregarded altogether in all commercial operations.

But it is not so with the variations in value of those metals which are usually employed as the common measure of value. These are by no means so trifling as to be safely disregarded; on the contrary, it is much to be suspected that they are of such great extent and frequent occurrence, as to be one of the main causes of the extraordinary fluctuations in prices, and consequent uncertainty in commercial transactions, by which so many prudent traders and industrious producers have, of late years, in spite of their prudence and industry, been reduced to bankruptcy and ruin.

In order to understand this aright, it is essential to begin by possessing ourselves of a clear idea of what constitutes commercial value. In ordinary language, everything which is useful or agreeable is said to be valuable, or to possess value. But commercial value can only belong to such objects as would be taken in exchange for something else; and that which they will command in exchange, or 'purchase,' in any market, at any time, is *their value* in that market, and at that time. Value, therefore, in matters of commerce, means *relative* estimation, and always has reference to some object or objects of comparison. In common phrase, when we speak of the value of a thing, money is the understood object of reference; and loosely used in this way, value means *money-value*. But money being merely, as has been said, some one commodity selected for particular qualities to be used as a measure of general value and medium of exchange, may be itself liable to vary in value. What then is to measure the value of money? Or rather how is the *real* value of money or any other commodity to be ascertained, independent of any conventional standard? Plainly, by a comparison with the general mass of commodities. And value, in a general and abstract sense, can only mean extent of command over the mass of commodities, or, as Adam Smith correctly phrased it, *purchasing power* in the general market.

This is, in fact, what we all understand when we speak, with any attempt at precision, of an article having risen or fallen in value. If by the discovery of new and very productive mines, the

quantity of gold in the world were doubled, no one will dispute that its value would fall. But why? Because it would command in exchange a smaller quantity of *all other commodities* than before. The same is true of anything else besides gold. If an improvement in machinery were suddenly to reduce the cost of cottons one half, they would fall greatly in value; and this, not because they will exchange for less gold, or money, than before, but because they will exchange for less of *all other commodities*. For if the fall in the value of gold and of cottons, the two cases we have just supposed, happened to coincide in point of time, the cottons would not fall in price or money-value, reckoned in gold; but no one could doubt their having fallen in real or general value, because they would command less of all other things (except gold) than before. Generally, therefore, it may be laid down, that if any circumstance increases the supply of anything, whether gold, silver, or other commodity, as compared with the demand for it, its value sinks; that is, it will command less of other things in the market (which have remained stationary in their relative demand and supply) than before; and *vice versâ*, its value rises when the demand increases in proportion to the supply.

The extent to which commodities will be generally supplied to meet the demand, and consequently their exchangeable value, depends, for the most part, on their comparative costs of production; that is to say, on the quantity of labour, immediate and accumulated in the form of capital, which is necessary to produce them. But this is no reason for confounding, as most economists have done, value with labour, and for maintaining that the real value of a thing depends solely on the quantity of labour necessary to produce it. In the first place, labour is something so indefinite and variable in its meaning that it can never be used as a measure of value;—a day's labour of one man, a Chantrey or a Lawrence, being worth, perhaps, a year's labour of another. And, secondly, even if labour were anything uniform and appreciable, it is still utterly false that its consumption would determine the value of the article it produced. On the contrary, we know that scarcity or monopoly, the rate of profits, taxation, and other circumstances wholly unconnected with labour, add to the value of many things *by increasing the difficulty* of procuring them. And, moreover, if there were any things exempted from monopoly, profits, or taxation, their value would still depend, not on their positive but on their *relative* producing cost. In short, the exchangeable value of any article depends, in the long run, not on the labour only, but on the difficulties, whatever their nature, of supplying it in sufficient quantity to meet the demand, as compared with the difficulties in the way of the supply of the average of other things.

Now, if the difficulty of supplying the demand for all goods were to increase and diminish simultaneously, and to the same extent, the value of all would remain unchanged, since each would continue to exchange for the same quantity of all other goods as before. If the difficulty of supplying any one commodity increases or diminishes as compared with all, or the bulk of all other commodities, its value will rise or fall in proportion. And should this commodity happen to be that particular one which is employed as the measure of the value of the rest, a corresponding change must take place in their value *as estimated in this commodity*, that is to say, in their money-value or *price*. To be invariable, therefore, in value, and consequently to be a just and true measure of value, the article selected for that purpose ought always to remain, as to the more or less difficulty of its supply, upon the average level of all other commodities. If the facility of supplying it increases faster than that of supplying the bulk or average of goods in the market, its value falls, and their prices are improperly raised. If, on the other hand, the facility of supplying the average of commodities increases in a faster ratio than that of the article used as money, its value rises, and prices are unfairly depressed. The effect is evidently the same, and the injustice and falsehood of the pretended measure of value as great, whether the change in the comparative facilities of supply proceed from circumstances immediately affecting the article used as money, or the bulk of commodities. Thus, where gold is, as in this country, the standard measure of value, a change in its value occasioning a change of general prices, (of the prices, that is, of the aggregate or average of commodities,) is as unjust and treacherous, as subversive of the assumed invariability of the standard, whether the change proceed from an alteration in the supply of gold or of goods. It is their *relative* facility of supply that determines the value of gold against goods, or of goods measured in gold; and whatever alters that relation vitiates the truth of gold as a measure of value.

It is strange how blind most reasoners are to this unquestionable proposition. The common idea is, that in as far as prices are lowered through a generally increased facility of producing goods, there is no injustice done to their producers. Certainly, if the supply of one, two, three, or a limited number of articles increase, through improved methods or machinery, faster than *the average* of goods in the general market, the fall which takes place in *their* exchangeable value is a natural and just one, not to be complained of by their producers; but if the supply of the *mass* or *average* of goods is increased by improvements in productive industry, no fall need take place in their *exchangeable value*; and if any fall occurs in

their *price*, it can only be because the supply of that particular article which is employed to measure price has lagged behind the average of the rest, and has so far become a faulty measure of their value. If the case is reversed, and the supply of the standard article has increased faster than that of goods in general, the consequent rise of general prices is a fault on the other side, equally destructive of the truth and equity of the standard. Now, nothing can be better established than that both gold and silver do vary in the facilities of their supply, and therefore in value, from the average of the commodities whose value they are employed to measure. Prices, therefore, as reckoned in gold or silver, are not a true criterion of value. And the assumption which forms the basis of the monetary system of the civilized world is a dangerous fallacy.

That the value of a precious metal must rise or fall with every change in the facilities of its supply as compared with the bulk of other commodities, is self-evident. The discovery of a very fertile and accessible mine of gold or silver might have the effect of lowering their value by one-half in a very short time. The exhaustion of the principal mines now worked, or the stoppage of their working through political causes, might raise the value of the metals as much in as short a period. Or, supposing the facility of procuring the precious metals to remain unchanged, any circumstances affecting agriculture, manufactures, and commerce, which should increase or lessen the facility of producing goods in general, may equally raise or depress the exchangeable value of the metals in an extraordinary degree. This is not mere theory. History records two most remarkable changes in the value of the metals, through such causes, in opposite senses. In the three centuries that followed the discovery of America, the influx of the metallic wealth of the old world into the new caused a progressive fall in the value of gold and silver (that is, as before explained, in their power of purchasing other things, and consequently a rise in the *prices* of these things reckoned in gold or silver) in the proportion of *one to ten*. And this, notwithstanding that the cost of producing all other things likewise was, during the same period, rapidly diminishing, through a multiplicity of improvements in the useful arts; so that the fall in the value of the metals only represented the degree by which their increased facility of supply exceeded the increased facility of supplying the bulk of other things.

Since the year 1810, when the political convulsions of Spanish and Portuguese America nearly stopped the working of their mines, the process, with respect to gold and silver, has been reversed. The quantity annually produced has fallen off very greatly (whether by a little more or a little less than one half, at which Mr. Jacob calculates the defalcation, is of no moment); so that, had

the facilities of supplying *other things* remained stationary, the value of the metals must have risen very considerably. In fact, however, the producing costs of nearly every other commodity have greatly diminished, and their supplies proportionably increased, since 1810; so that during this latter period, the facilities for the supply of the metals, and of other goods, *have varied in opposite senses*, and their relative variation, (and, with it, the change in *value* of the metals, and in *price* of goods in general,) has been proportionately rapid and extensive. These are broad and indisputable facts, not dependent on nice calculations in which a trifling error may alter the entire result. It is notorious that there has been, since 1810, a great defalcation in the supply of the precious metals—that there has also been, during the same period, a great increase in the quantity of all other goods brought to market, through increased facilities of production; and in the price-currents we see the necessary consequence of this inverse variation in the rate of the supply of gold and silver and of goods,—namely, a progressive, rapid, and, on the whole, extensive rise in the value of the metals in which prices are by law and custom expressed.

Now, the effect of any such variations in the value of the common standard must, at all times, be harsh and unjust to individuals, by disturbing the intention of all money contracts, and giving them, by law, a different meaning from that which was contemplated by the parties at the time of the engagement. When A bargains to pay B, at a specified time, so much money for value received, money is employed merely as *the expression of value* in ordinary use; and neither party contemplates a change in the value of the sum specified. On the contrary, by employing money as a measure they virtually assume that its value will remain fixed. Should it, notwithstanding, vary in the interval before the specified time for fulfilment of the contract, it is evident that one or other of the parties is injured. If the value of money fall, A pays a less value than he could have anticipated; B receives less in value than he expected. If the value of money rise, B, the creditor, is the gainer, A, the debtor, the loser, by the change. In either case, both the gain and loss are equally unjust, because un-*contemplated* by either party at the time of their engagement. It may be said, perhaps, that the parties are aware of the chance of such a change, and knowingly risk it, as they risk any other casualties which may prevent the entire fulfilment of their expectations. But this I conceive not to be the fact. It is not credible that the parties to any money contract do contemplate, or are in general even aware of the possibility of any change occurring in the value of money during the term of their bargain. People

are, from their historical reading, acquainted with the fact that money has fallen in value very much since the days of Edward I. when a penny is said to have been the wages of a day-labourer, and to have found him in good bread, beef, and ale. But they have no notion or suspicion that an infinitely more rapid variation in the value of money is going on in their own time,—a variation so great as to alter the value of a money contract in the proportion of one to two in less than twenty years! On the contrary, the assumption that money is invariable in value, *which is the basis of its conventional adoption as the measure of value*, impresses most minds with the conviction that it is invariable; and it is under this habitual conviction that they buy and sell, and enter into all their monied engagements, whether as debtors or creditors.

Now then let us examine the general effect produced on society by considerable variations, such as I have shown to have taken place, in the value of the precious metals, and consequently of money.

Mr. Jacob justly observes, that the gradual and prolonged fall in the value of money, which followed the discovery of America, was, on the whole, highly beneficial to society, by giving a continued premium to industry, stimulating it to further exertions, and at the same time enabling it to make them. The commerce of the towns, and the agriculture of the country, alike profited from the continued rise in the prices of their produce. All the money engagements of producers, whether rent, taxes, subsidies, tithes, or interest of borrowed money, were continually bearing a less proportion to the sums obtained by sale of the produce of their industry (out of which these debts had to be paid), than was contemplated at the time of the debts being contracted, or the speculations undertaken. The difference was an unlooked-for boon—a *bonus* in addition to the expected profit of each undertaking. The profit on all transactions continually averaged more than was calculated on. No wonder that capital grew and industry flourished under such a process. Though certainly attended with injustice to the creditors of the producing classes, it was a vast benefit to society at large. The parties to whom the money was due were principally the monarch and the feudal aristocracy, whose exaction of rent, subsidies, &c., from the producing classes, would have probably kept close upon the heels of their means of payment, and prevented all accumulation of wealth and expansion of industry, but for the fortunate and hidden circumstance that was continually giving an unexpected advantage to the industrious inferior, and enabling him to elude the grasp, and ultimately free himself from the bondage, of his baffled feudal superior.

This lasted up to 1810 ; nor was the rate of progression in the depreciation of money at all checked till that moment. Then, however, commenced a process directly the reverse in every point, except that the rise of money in value was far more rapid than had been its previous fall ; because, as has been explained, it now consisted, not, as before, of the mere difference between the rates at which the facilities for supplying both the metals and goods were simultaneously increasing, but of the difference between the increasing supply of almost all goods, and the positively decreasing supply of the metals. In the first period both were moving in the same direction, though at different rates. In the last their movements were in opposite directions, and their separation increased with corresponding rapidity. The fall of prices, which accompanied the latter process, reversing the effects of the earlier operation, have caused a continual falling off in the returns of every industrious enterprise below what they were calculated at—a continual increase of the value, and therefore of the real burthen, of every monied engagement to which the industry and productive property of any country was liable, whether permanent or temporary.

It is quite clear to me, that the public of this country is by no means aware of the extent of injury to which all the great interests directly concerned in production, whether as landlords, labourers, or capitalists, have been subjected by this continued and excessive rise in the value of the standard. Had the truth been generally known, there would have been long since evinced a strong and irresistible anxiety, on the part of all these powerful and numerous classes, for a parliamentary investigation of the circumstances which occasioned the rise, with a view to its counteraction. Had the productive classes been at all informed of the degree in which their fortunes were occultly but completely undermined by this secret cause—that while they, honest folk, have been struggling and straining for years past to increase the returns of their industry and productive property, the ground on which they stood has been all along slipping imperceptibly away from under them, and carrying them back in spite of all their efforts,—that they have been rowing with might and main against a stream, which no labour could surmount—advancing only like the squirrel in his revolving cage, in which, though he work his heart out, he cannot rise an inch ;—had this, the real *status* of the industry of this great empire, been clearly known to the parties most immediately concerned, the outcry of last year for Reform in Parliament would have been as a rain-drop to Niagara, compared to the demand which should have torn the welkin—and with no less reason at all events—for a *Monetary Reform*,—for the *fixation in value* of

that *standard* by which the earnings and the outgoings of the industrious are measured ; which is assumed to be fixed when the farmer stipulates the rent he will pay, when the manufacturer borrows the capital he employs, when the landlord burthens his estate, when parliament votes a loan—but which turns out to be a lie and a shuffling cheat, when these several engagements have to be fulfilled out of prices, and the standard, carrying with it all debts, is found to have swelled to double its former magnitude ! The effect to the producing classes is as flagrantly unjust—it has been, in fact, the same thing as if, the relative value of gold and goods remaining unchanged, the weight of the sovereign had been doubled by law, or the pound sterling, in every contract, made payable in two sovereigns !

In order to enable my readers to form a faint estimate of the pressure thrown on the great interests of the community by this treacherous violation of the *animus* of every money contract, I intreat their attention (and there is not one among them but must have a deep personal interest in the elucidation of this important subject) to the following considerations.

The various sources from whence the incomes of the different members of society are derived, may all be classed under four heads, *viz.*, labour, land, capital, and money obligations. No individual who does not depend for his maintenance on the bounty of others, possesses aught but what proceeds either from the earnings of his industry of hand or head—or the rent of his land—or the profits of his capital engaged in some productive occupation—or, finally, from some claim which entitles him by law to fixed sums of money proceeding from the labour, land, or capital of others. The owners of income derived from the three first sources are more or less directly concerned in the production of saleable commodities, the money obtained from the sale of which, that is, *the price, after deducting the money charges upon them*, constitutes their income. The income of those classes, therefore, generally speaking, rises and falls with the rise and fall of prices. High prices cause high rents, high profits, and high wages in every department of industry. With low prices come necessarily low rents, low profits, and low wages. But some are simple or astute enough to puzzle themselves or the lieges, by asking, what is the advantage of a nominal high income, if the price of everything on which the income is expended rises *in proportion* ? None certainly. But the incomes of the important classes we speak of rise beyond the proportion of the rise of prices, and fall beyond the proportion of their fall ; and for the plain reason, that these incomes consist of the *net sums* left out of prices after paying the fixed sums of money for which these classes or their property are answerable to the owners of the fourth class

of income. So that every rise of prices leaves not only a larger sum, but a higher value likewise, to the producing classes; and every fall of price is not a loss of nominal only, but of real income. Say, for instance, a landlord has an estate of a thousand a year rent, which is liable to monied burdens in mortgage interest, taxes, &c., to a deduction of 500*l.* per annum; should prices rise ten per cent., and carry up his rent with them to 1,100*l.* a year, he gains an increase of twenty per cent. in his income, *viz.*, from 500*l.* to 600*l.*, so that its 'purchasing power,' or value, increases ten per cent. in spite of the rise of prices in all the articles he buys. If prices fall on the other hand ten per cent., his *net* income falls twenty per cent., or ten per cent. in value. In the same way the manufacturer or the tradesman enters into various money engagements for rent, rates, taxes, interest of borrowed money, &c., in the expectation of certain prices which will pay him a profit after refunding these expenses. Should prices fall, the deficiency is entirely to be made good out of his calculated profits, the whole of which may be absorbed and leave him still in debt. It is no compensation to him for such losses that in his next speculation he may purchase his stock or materials at a reduced price, with the chance of a similar loss, when he brings the result of his industry to market. The same is true of all incomes which are derived from productive industry or productive property. A general rise of prices raises their value, a general fall lowers it—the value of the money charges upon them, *and consequently of the incomes of those to whom the money is due*, varying inversely with the former class of incomes.

Whatever general fall in prices, then, has taken place of late years has been, *pro tanto*, a loss to the classes which derive their income from productive industry or property,—a gain to the same extent to that class which owns the monied obligations on the industry and property of the former—the *monied interest*. The gain and loss being equally unjust, because proceeding from a circumstance which could not have been contemplated by either party,—a change in the instrument employed by them to measure the subject matter of their agreement.

Now to what extent has this unfair change in the understood relations of these parties affected their several interests? What proportion does the amount of monied obligations bear to the value of other property? In the early and simple stages of society, little, if any, property exists in the shape of monied obligations. Indeed, its existence is incompatible with a state of turbulence and insecurity, when the law is too weak to enforce the execution of contracts, and the power of wax and parchment is not yet acknowledged as superior to that of the

mailed hand and the train of belted followers. But wherever the division of labour and extension of commerce, with the security of property and confidence in the faith of contracts which are their necessary conditions, and the civilization and refinement by which they are invariably accompanied, have made any considerable progress—the proportion of property which consists of monied obligations attaching to the wealth or industry of other parties, becomes prodigiously augmented. In a highly civilized and commercial community such as ours of the present day, it reaches an extent certainly not inferior in any respect to that which is derived from either of the three other sources—and according to every indication, greatly exceeding in amount that which the law dignifies by the title of *real* or landed property.

The present annual value of the landed property of Great Britain and Ireland is approximatively estimated by most statistical writers at forty millions sterling. But if we attempt to calculate the amount of money liabilities to which the industry and substantial property of the country is liable, the very first item that we have to set down is one far surpassing in amount the entire rental of the three islands,—namely, the annual estimates, or the sum to be raised within each year by taxation, now somewhere about fifty-four millions. This enormous monied property is held for the most part by the fundholders, the government annuitants, the possessors of pensions and places, the members of the army, navy, and other departments of the public service—whose pay being fixed, may be considered a permanent burthen on the resources of the country. If to this item we add the immense mass of private liabilities, in the shape of mortgages, annuities, bond and judgment debts, and other engagements bearing interest, we shall see good reason for believing the entire sum of monied liabilities of a fixed amount and permanent character, to reach considerably above one hundred millions per annum; or, at an average of but twenty years' purchase, *two thousand millions* in its total amount!

But besides these more or less permanent money engagements, there exists in this country at all times another prodigious amount of outstanding money liabilities, of a temporary character, in the shape of commercial bills and book-debts. The former are drawn at various dates, from ten days to six or twelve months. The latter remain due before they are paid, for periods of time varying from a few days to several years. The average amount of bills of exchange, at all times current, has been estimated by competent authority at three hundred millions sterling.* And if we calculate the book-debts at double that sum, or even seven hundred millions, we are much more likely to be under than over the truth.

* See Mr. Loyd's evidence before the Committee of 1819.

Now this immense mass of outstanding money engagements, reaching altogether, according to the above data, to not less than three thousand millions, forms a constant fixed burthen upon the industry and productive property of the community ; for there is, as we have before said, no other possible source from whence one shilling of it can be paid than the annual produce of labour, land, and capital, one or all. The amount of this prodigious burthen is measured *nominally* in pounds sterling. Its real extent and pressure is determined by the relative quantity of the produce of the labour, land, and capital of the country, which this number of pounds sterling will command ; since in proportion as that quantity is increased, must the quantity that remains to its producers after satisfying these claims upon them be lessened. In other words, the pressure of these liabilities varies inversely with the *prices* obtainable for the annual produce of industry, out of which prices they have to be paid.

My readers may by this time begin to form some conception of the enormous injury inflicted upon the classes concerned in production by the fall of general prices, or rise in the value of money, which has taken place throughout the commercial world since 1810.

The owners of labour, land, and capital, engaged in production, may be considered, according to the equitable construction which has been shown to belong to money contracts, as bound by the intent of those engagements, to pay over to the owners of the mortgaged obligations to which they are liable, a certain proportion of the annual produce of their joint industry and property ; which proportion is, in the terms of their contracts, represented by certain sums of the legal standard measure of value. But any change in the value of this standard measure, which should enable the creditors to command, by the letter of their bond, an increased proportion of the aggregate produce of their debtors, is an evident injustice to the latter ; just as it would be to the creditors, were a variation in the opposite sense to lessen the exchangeable value of money, and diminish the command over the products of industry represented at the time of contract by the sums specified in the bond. This, I think, can hardly be disputed.

It will surely not be urged that the parties who entered into money-contracts, subsequently to 1810, were at all aware that the ounce of gold which they employed as the common measure of value, had been itself falling in value for many years before that epoch, but had then on a sudden commenced a variation in the opposite direction, and was rising so rapidly as to double its value in twenty years ! No,—they took it for granted, as every one does who employs a standard measure, whether it be a pint pot, a foot rule, an ounce weight, or a gold coin, that it will remain

itself invariable in that quality, *which it is appointed by law to measure in other things*,—whether capacity, length, weight, or value. They were aware of the frequent fluctuations in price to which all mercantile commodities are *separately* liable, from alterations in their demand or supply: the producers of or speculators in corn, or hops, or cloth, or cotton, knew that a variety of circumstances, affecting the production of or demand for their articles, might cause a rise or fall in their value; but no one anticipated, nor is it likely to have entered into the imagination of any of them to conceive, that there would occur any change in the general relation between money and the mass of commodities. But for the political troubles in the American provinces, the value of money would have continued to fall since 1810, as it had done for centuries before. The parties to money engagements before that epoch were scarcely conscious of this continual fall. But certainly neither they, nor those who entered into them subsequently, had any notion of the sudden turn that was then to be given to the circumstances affecting the value of the metals, and of the extraordinary rise in value they were destined from that moment to commence. The change has undoubtedly come by surprise upon the parties to all money contracts, whether executed since that time or before. All creditors have profited to the extent of the rise beyond what they had any reason to expect. Their debtors have incurred in the same degree an unexpected, and therefore unjust and cruel loss.

Well, then, if we take the amount of the permanent annual money engagements existing in this country, as estimated above, at one hundred millions (and this we think must be considerably under the truth), we see that any rise in the value of money to the extent of five per cent. would defraud the producing classes, or the owners of labour, land, and capital, of their justly expected returns, to the amount of five millions of money per annum, for the benefit of the monied interest; whilst, if the rise were to reach fifty per cent. (and it is generally believed, and the price-currents might perhaps be brought to confirm the fact, that, on the average, a fall of prices has taken place to that extent since the termination of the war), it would forcibly and unjustly take no less than *fifty millions per annum* from the pockets of the producing classes, to put them into those of the monied interest! If we calculate as before, the value of this property on the average of twenty years' purchase, here will appear to have been a violent and unjust transfer of property from one class to another (and, in a parenthesis, from the producing to the unproducing class), of no less a sum than a thousand millions of money! This, however, is not all. For to whatever extent the variation in the value of

money takes place, within such periods of time as limit the duration of bills of exchange and book debts, to that extent likewise is the same unjust change effected in the relative position of the parties to these temporary engagements; the extent of which at all times outstanding we have calculated above at not less than a thousand millions of pounds,—a sum so large, that a variation of only five per cent. in the value of money within six months, which we may assume to be their average duration (and we have seen of late years variations occur to a greater extent within that space of time), would effect an unjust and compulsory transfer of property between individuals to the amount of no less than fifty millions of money. And, if the cause which operates this change continues for some years to produce a similar result, until the total variation in the value of money has reached the extreme depression of prices calculated to have taken place since the close of the war, viz. 50 per cent., the amount of property transferred by the action of this occult and un contemplated cause upon bills of exchange and book debts, will have reached by the end of that time to five hundred millions, to be added to the thousand above-mentioned.

Here, therefore, is probable ground for believing that—without reckoning the *cross* fluctuations that have occurred within the same period, and to which I shall shortly advert—the general rise in the value of money that has notoriously taken place during the last fifteen or twenty years, through the joint agency of the causes I have noticed (namely, a diminished supply of gold and silver, coincident with an increased supply of the bulk of other commodities), has effected a compulsory mutation of property between parties—unjust, because un contemplated by the parties themselves at the time of their entering into their engagements—because effected by virtue of a mere verbal quibble, which makes the value of property in Britain fluctuate with the productiveness of certain mines in America—to the extent of not less, perhaps, than *fifteen hundred millions*, or nearly the double of the national debt!

The consideration of this result is appalling. The stupendous magnitude of the injustice I denounce as having been inflicted, within so short a period, by the treacherous variation of our legal and customary standard of value, may well startle my readers, and lead them to suspect me of exaggeration or error. But let them again go over the several steps of my argument, and I think they will discover no flaw in its sequences. It may, indeed, be reproduced in a very small compass. Assuming the fall of general prices, since the war, to average fifty per cent. (and, if it were reducible to forty only, or even thirty per cent., the result would

still be frightful), this is a doubling of the value of money—that is, in Britain, of gold. The sum, therefore, of three thousand millions at which I have estimated the total of monied obligations at all times outstanding in the three kingdoms, has been gradually doubled in value, that is, in its relative command over the produce of industry, land, and capital. But as no variation in the value of money was contemplated by the parties to this immense mass of money engagements at the times of their being contracted—but, on the contrary, the invariability of the standard was tacitly and virtually assumed by them when they employed it as a measure—the increased command which has been conferred on the owners of these vast claims over the property of the other members of society who are responsible for them, represented by one-half their total amount, or fifteen hundred millions, is to that extent a boon, a godsend, an unlooked for and chance-allotted gain to the former parties, and consequently, an unexpected, unmerited, un contemplated, and unjust loss to the latter. I do not employ the term fraud, robbery, or spoliation, in characterizing the injury sustained by the debtor party in this great revolution of property,—only because I will not and do not believe it to have been intentionally brought about for the purpose of gain by any human contrivers. In all other respects, but the absence of the *animus furandi*, it has been to all intents and purposes as complete an act of legal robbery (for it is the law, be it remembered, that has continued to tie down the common measure of value, the pound sterling, to a variable, chance-depending standard), as any sentence of direct confiscation that revolutionary or despotic power ever pronounced.

Now, even if it is admitted to be impracticable (and this I fear is unhappily the truth) to remedy any part of the enormous mass of injustice that has thus been secretly and silently perpetrated of late years by the alteration in the value of the standard, or to restore to the suffering parties, by any equitable adjustment of their complicated contracts, the property of which they have been so unfairly deprived;—if we consent to throw a veil of oblivion over the mode in which the owners of all the permanent monied obligations that weigh down the productive industry of the land, acquired their title to the excessive share they now enjoy of its gross produce—if we confirm them in their present rights, and allow them henceforward to retain the unforeseen profit which circumstances have awarded them at their industrious neighbour's cost—still, is it not a question of some moment, and well worthy of all the attention which statesmen of all ranks and parties can muster for its consideration, by what means changes in the value of money which have been, and may yet be, productive of such prodigious injustice,

and of transfers of property on such a vast scale between private parties,—by the force of verbal agreements of which the law compels the execution in a sense quite distinct from that which the parties contemplated at the time of their contract—how, I say, such variations can be prevented for the future; or, if not wholly prevented, confined, at least, within the narrowest possible limits?

This question is evidently one of paramount importance. For what is the chief end and object of the institution of civil government, but the protection of property, and especially of that property which is at once the result, the reward, and the motive of industry? And what a farce it surely is to talk of property being effectively protected in a country in which an unseen and secret cause may, within a few years, transfer property to the amount of fifteen hundred millions (!) from one set of people to another, contrary to the intentions and understanding of the parties?—may covertly despoil of value to this enormous extent the classes whose industry or property is embarked in productive operations, for the benefit of those who own monied obligations payable out of the proceeds of the produce of the former?

Thus inquiry into the state of the currency is forced upon us at the present moment, not simply by the circumstance of the proximate expiring of the bank charter, but by the inherent weight and urgency of the subject; as second to none, and affecting the very foundations of our social polity, the security of property and the protection of the rights of industry.

I approach the subject, indeed, with an intense conviction of the incalculable magnitude of the interests it involves, which are certainly no less than the stability of our national institutions (none of which can long withstand the destructive operation of the circumstances I have described,) the maintenance of our national credit, the preservation of our industry, the happiness of our people, and ultimately, perhaps, the very existence of our country as an independent nation. It is a question which lies at the very bottom of the social and economical condition of the empire—which at once discloses the origin of the general distress among the productive classes, of which we have heard so many complaints, and witnessed so many painful proofs, and which has been the real exciting cause of the terrific political ferment but just subdued for a moment, to be renewed again in a still more dangerous and powerful form, if that remote cause and its immediate result—the insufficient share obtained by industry in the produce of its exertions—be not speedily removed.

The question then is how to prevent variations in the value of money, and give in reality to the medium of exchange that fixity

of value which it pretends to have, and which is indispensable in this great commercial empire, whose money obligations always outstanding are, as we have seen, on so prodigious a scale,—for securing the equitable construction of contracts,—for guaranteeing property from the most unjust, and not the less violent because stealthy and silent, invasions,—for redeeming commerce from the condition of a mere gambling speculation,—and for affording some certainty to the industrious, the prudent, and the frugal, that they shall not be robbed of the returns which, upon a just calculation of all the circumstances affecting the demand and supply of the markets, they have a right to expect from their industry and economy, by an unforeseen and treacherous variation in that standard, which they can only be directed by the law to employ as the common measure of their property and engagements, upon the implied understanding of its fixity.

Now, so long as any single commodity is employed as the standard of value, so long must that standard be liable to great variations, with their consequent evils. Probably no article could be named whose fluctuations in value are likely to be less frequent or extensive than those of gold or silver; and yet it has been seen on what a scale these are liable to take place,—falling in the proportion of from ten to one during one period, and again rising in that of one to two during another. But must a standard necessarily consist of a single commodity? A commodity, as I have already shewn, to be invariable in value, should preserve a constant equality in the rate of its supply with the average of the mass of commodities. Why then cannot a standard be formed by taking an average of the mass of commodities, or, at least, of so considerable and varied a list of them as may with sufficient correctness represent that mass? Even though not employed as the legal standard, it might serve to determine and correct the variations of the legal standard. If, for example, a table were officially constructed, giving, from authentic sources of information, the average market-prices of a large number of the commodities in most general and constant demand, the mean of these different prices, corrected at stated times by competent authority from the averages of the preceding interval, would form a sufficiently accurate test of any general variation of prices that may have occurred in the interval; and consequently of all variations in value of the measure in which prices are reckoned—whether gold, silver, unconvertible paper, or deteriorated coin. The table need only be sufficiently extended, to afford, in the mean price of the whole number of articles contained in it, a standard of value (in its true sense of general purchasing power) as near to complete invariability as can be desirable for any prac-

tical purposes. The perfect equity of such a standard is evident. If the producing cost of the metallic standard increased or diminished *pari passu* with that of the average of commodities, no variation would appear in the tabular standard. If the facilities for supplying gold increased beyond the proportion of the mass of other goods, (as happened in the period before 1810,) the tabular standard would exhibit a proportional rise in prices, by which the exact amount of fall in the value of the metallic standard would be detected. If the supply of gold did not keep pace with that of commodities, (as has been the case since 1810,) the tabular standard would show the precise degree in which the exchangeable value of the metal is enhanced.

To make my meaning still clearer, suppose the table to contain one hundred heads, each consisting of a fixed quantity of an article of general consumption, as a quarter of wheat, barley, oats, and beans respectively,—a stone of beef, mutton, &c.,—a ton of iron, a hundred weight of copper, a hundred weight of sugar, a quarter of a hundred weight of tea, a half hundred weight of coffee, a hundred weight of hops, a hundred weight of hides, a ton of flax, a hundred weight of tallow, a ton of hemp, &c.,—and suppose that the mean price of all these articles, (exclusive of duties,) that is, the sum of the prices divided by one hundred, is at present a pound sterling,—should this mean price have fallen at the end of a twelvemonth to nineteen shillings and sixpence, or one-fortieth, it will be evidence that the value or purchasing power of the pound sterling (and of gold under our present standard) had fallen one-fortieth. Here, then, though the law continued to maintain the metallic standard in all contracts which did not contain a special agreement to the contrary, it would be open to all parties to avail themselves, if they chose, of the comparatively invariable standard which the table would afford them, by declaring that their agreement should have reference to the tabular standard, or be corrected from time to time by it. The publication of such a table of reference in an authentic form would entirely obviate the disadvantages attendant on variations in the value of the metallic standard in all future contracts. The extent of those variations would be openly declared and easily ascertained. There would be no longer any deception or jugglery in the standard of value to be dreaded by those who enter upon money engagements. Such persons as continued to regulate their contracts by the metallic standard would do so with their eyes open to its possible fluctuations, and their acquiescence in the chances attendant on its use might thenceforward be fairly implied from its voluntary employment. Those, on the other hand, who wished to employ money in their contracts as a correct measure of value, and to run no

risks of its variation either way, would have it in their power to confer on the sum specified an uniformity and permanency of value, *by changing its numerical amount in proportion to the change in its power of purchase.*

The vast utility of such a trustworthy standard of reference to the parties to nearly all money engagements can scarcely be disputed. How many heads of families, for example, are nearly reduced to ruin in the present day by the large jointures and other provisions with which the family estate is burdened for the benefit of younger or distant branches,—provisions calculated on the value of the property some twenty years since, but which now almost wholly consume the diminished rental! Had the table now proposed then existed, reference would most probably have been directed to it, so as to leave to each member of the family a fixed fortune, as measured by his comparative command over the necessities, comforts, and luxuries of life,—not one fixed in *nominal amount*, but liable to increase in *value*, as the fortune of the head of the house dwindled into nothing!

How serviceable such a table as a regulator of *leases*! Why is it that our husbandry is the most improved, and rents generally highest, in districts which are by no means the most naturally fertile, in Norfolk, Northumberland, and Scotland. Why, but because—as Mr. Coke has repeatedly impressed upon his brother landlords, both in and out of parliament—*there is no good agriculture without leases.* But that which prevents prudent landlords and solvent tenants from entering on the lottery of a long lease at present, is the uncertainty that prevails as to the value of money. The use of the tabular standard would obviate all the disadvantages which are justly objected to in corn rents, and give complete security that the rent agreed to shall not vary in value.

Again, if any general commutation of tithe is to take place—and the current of general opinion seems to set too strongly that way to be safely opposed—it is certainly only by a power of reference to a safe regulating standard, such as is now proposed, that the church could be justified in consenting to commute tithe for a money stipend.

Scarcely any kind of property has been more affected by the change in the value of money than ancient endowments for charitable purposes. Where land was so bequeathed, its value has generally increased, and the charity has profited in proportion—sometimes to an extraordinary extent; but where a money rent-charge, on the contrary, happened to be mentioned—instead of the land from which it proceeded—its value has fallen to comparatively nothing, and the intention of the testator been frustrated. Now, if instead of money or land, reference had been had to some table of prices such as is here proposed, or one even much

less extended—if in lieu of so many acres, or pounds sterling, the bequest had consisted of the average market *price* of so many quarters of corn, hundred weights of wool, hops, iron, lead, and copper, and so many yards of cloth and linen—the *value* of such an endowment bequeathed in the twelfth century would have suffered very little variation from that day to this, but would have represented at all times the same relative command over the necessities and comforts of life.

Without entering into further illustrations of its utility, the reader cannot fail to perceive that it might be relied upon as an accurate test, whenever the object was to secure an income which should always preserve a fixed proportion to the general average of incomes, or to determine a fixed burthen, such as a mortgage or annuity, which should always bear the same relation to general prices, as at the moment of its engagement. In fact, every class is interested in the formation of such a table; the owners of monied securities no less than their debtors. The tide has been running strongly in their favour for some time, but it may turn. Even now, rumours arise from many points, of the discovery of new and vastly-productive gold mines—in the United States, in the Isthmus of Suez, in the Oural, and elsewhere. One such discovery might cause a rapid fall in the value of the metallic standard, sufficient to turn the tables wofully against the monied interest, and do tardy justice to the classes engaged in production. But whatever be the fate of existing money engagements, it is surely an object of high national importance that some means should be afforded to the public of giving a steadiness of value to those which may be contracted in future; that the treacherous character of the metallic standard be proclaimed as a warning to the lieges; that a measure of value be placed within reach of all such as choose to employ it, which will be liable to no casual variations, and will neither expose the owners of fixed money engagements to such a continual diminution of their property as they suffered previously to 1810, nor confer upon them such an unfair advantage at the cost of the industrious class, their debtors, as has happened since that remarkable monetary epoch.

However generally preferable it would be to the legal or metallic standard, its employment might be left entirely optional. It would be in itself merely a table of reference, constructed by official authority, according to which all contracts, whether relative to loans, leases, or bequests, might, at the will of the parties, be made payable, in lieu of money of indefinite and variable value. By affording the means of removing all uncertainty from time contracts, it would contribute most effectually to the extension of our national industry. The possibility of framing

prospective engagements, so as to maintain, under every event, their *bonâ fide* value, would restore that confidence in the security of property, and the just reward of industry, which the late changes in the value of money have so dangerously weakened*.

The objections brought against it will probably be the difficulty of ascertaining the average prices of so many articles, and the danger of their falsification from interested motives. But I apprehend there would be little practical difficulty experienced in ascertaining from authentic price-currents of the London, and other principal markets, the average prices of the specified articles for the six or twelve preceding months. And as to the fear of a tampering with the averages, if such fraudulent influence has been found impracticable to any material extent over the averages of one article only (corn), and within a period limited to one month—it is impossible to conceive that any combination of persons, by any efforts, could make an appreciable impression on an average calculated on the mean prices of a long list of articles in all the great markets of Britain, throughout six or twelve months.

The vices incident to a metallic standard must be felt in every country which employs it; and the injury suffered through them by its industrious classes, during a period in which the metals are rising in value, will be proportioned to the extent of money engagements to which the industry of that country is liable. France and the United States of America are the two nations which, from the expansion of their commerce, and consequently of their credit transactions, have suffered most, after England, from the late appreciation of the metals. But every other nation must have been injured more or less by the variation of its standard; and all would be benefited by such a public acknowledgment and exhibition of its variations, as might be afforded by the simple means here pointed out.

CHAPTER II.

Circulating Medium.

Thus much of the standard of value. I now proceed to the subject of the circulating medium. The two are perfectly distinct, however frequently confounded. Though gold were the universal standard of value, it by no means follows that it should circulate extensively as a medium for the exchange of commodities. In Scotland, for example, with a gold standard, there is no deficiency

* After the greater part of the above was written, I have found in Mr. Lowe's valuable work, a proposal to the same effect; and am happy to know I am supported in this line of argument by such an author.

of money, but gold forms no part of it. In fact, the true purpose of a standard is for *reference*, not constant use. The brass rod kept at the Exchequer, and referred to by the act of the 5th Geo. IV. c. 74, is the standard yard-measure of all Britain. But the measures practically used throughout the country are made of wood, tape, or any other material, by any one who chooses, under the single condition imposed by law upon their use, that they shall correspond in that quality of which they profess to be the measure, viz. length, with the legal standard of length. Now, in Scotland, it is equally free to any one to make or issue for use the medium employed for measuring value, that is, money; with the single condition that their money shall correspond in value to the legal standard. And the test of its correspondence offered by its issuers to the public, is, that they will at all times exchange it for gold on demand. This almost unlimited freedom is there found to work equally well in the case of value-measures as in that of length-measures. The caution of the public secures them as effectually from being imposed on by false money as by false foot-rules. A Scotch bank-note represents the gold its issuer promises to pay on demand, just as a wooden rule represents the brass yard in the Exchequer. The public put full confidence in one as in the other, because it is open to them at any time to prove the correspondence of the measure to the standard—in the one case by comparison, in the other by conversion.

In this way, then, by the use of *convertible paper-money*, or the written engagements of parties of known credit to pay, on presentation of the paper, fixed sums of gold, the extensive transactions of highly commercial countries may be, and are, carried on with the aid of no more metal than experience proves to be needed by the paper-issuers, as a reserve to meet the demands which may at any one time be made upon them for gold in exchange for their paper. In Scotland, where the credit of the note-issuing banks rests on the broadest foundation, such demands, it is found, are never made, unless to a very trifling extent; and the reserves of gold are proportionately small. Now, the advantage of this economy of so costly a substance as gold is immense. The only use of money is as a means of commanding things which are to be bought—in one word, ‘as a purchase-power;’ and if a paper pound will always purchase as much as a gold pound, it is quite as useful, and, from its easier and safer transmission from place to place, a far more convenient purchasing-power than gold. But it has, above all, the especial advantage of costing next to nothing; whereas, the gold, whose place it takes, can only be obtained at a great sacrifice. If, for example, a million of money is required as the circulating medium of any dis-

strict, its inhabitants must procure this, if it be gold, by an equivalent sacrifice of valuable commodities ; and so long as they employ the gold for this purpose, it brings in no profit and puts in employment no labour, but is so much capital lying dead and inactive. Whereas, by substituting paper-money,—the cost of which is less than that of the mere wear and tear of a metallic circulation—they save a capital equal to their entire circulating medium, which may be employed in trade, agriculture, or other profitable occupations.

But the benefits of paper-money are greatly under-estimated by those who suppose them confined to the profits obtainable on so much capital actively invested in the employment of labour and the production of consumable commodities, instead of lying idly invested in a number of metallic counters, great as those profits are. It has been shewn that there is a continually increasing difficulty in procuring supplies of the precious metals as compared with other commodities. So that if the commerce of all countries were tied down exclusively to a metallic medium, the demand for it, increasing with the growth of population and production, must rapidly augment its value, and industry be constantly discouraged by a continual declension of prices. I have already offered a rough calculation of the injury effected by the appreciation of the metals during the last twenty years. But what would have happened, had all the internal commerce of Britain, America, and other great trading nations, been carried on *exclusively* in metal ? Why, instead of being doubled only, their value would, perhaps, have been decupled. Prices must have fallen in proportion, and the productive industry of these countries must have been utterly annihilated under the pressure of its money obligations. The advantages, therefore, of paper-money, are not only its far greater convenience than metal, and the saving of the enormous cost of a metallic circulation,—but likewise, that it permits an indefinite extension of productive industry and commercial exchange, without a proportionate enlargement of the supply of metal, which could not be obtained but by an inordinate increase in its cost and value. It is to paper-money we owe the expanded trade of the nineteenth century ; and with the decrease of paper-money, the growth of trade has been proportionately stunted.

‘ Oh ! but how shocking ! ’ cry some of the wise advocates of a metallic circulation (wiser, perhaps, *in their generation*, than their antagonists),—‘ how iniquitous to allow a banker to get possession of other people’s property, by merely giving in exchange bits of paper of his own manufacture ! ’ But, if this is so bad, it must be still worse to allow persons to get possession of the property of others upon their bare word, without giving any tangible substance

whatever in exchange. Ought we then to prohibit all dealings on credit,—all sales but such as are for ready money? Must ledgers and running accounts be abolished; and men forbidden under a penalty, to take the word, note, or bond, one of another? In short, is society to be forced to return to the primitive method of exchange—barter? All this we ought to do, if it is wrong to allow the employment of credit as a medium of exchange.

Some, however, draw a very nice distinction, and profess only to object to credit when employed as a *circulating* medium of exchange. But besides that it is not very evident why A should be allowed to buy goods with his own credit, and not allowed to buy with the credit of B, if it is better known in the market and B chooses to lend it him, it is in truth not easy to say what is, or what is not, a circulating medium. The title-deeds of an estate, if transferred through two or three hands as a security for advances, may be said to circulate in a limited degree as a medium of exchange. Government stock, India, and Foreign bonds, with many other transferrable securities, are employed more or less to circulate values. Bills of exchange are in some districts the almost exclusive circulation. Cash-notes, therefore, or notes payable on demand to bearer, against which the outcry is generally directed, are by no means the only description of circulating credit. In fact, credit acts as a medium of exchange in a commercial country, under a variety of forms invented for the convenience of commerce according to the purposes for which it is required. For some objects it is not required to circulate at all—or within a very limited range. For others a great facility of circulation is desirable. Accordingly, contrivances have been adopted, in the progress of improvement, for converting such species of credits as are slow to circulate, into those which obtain a ready and general circulation. A bank of issue is such a contrivance. When a bank puts out its own notes on loan or discount, the operation resolves itself into this: A comes to B (the banker), and says, ‘Lend me your credit for such amount, in exchange for mine, which is not so generally recognized as yours;’ B assents, because he individually knows the goodness of A’s credit, though the public do not; and it is his business to make himself acquainted with the means, and character, and speculations of his customers. Instead, therefore, of A buying cloth or cattle in the market on his own credit, he buys on the credit of B (that is, with his notes), and for lending this, B gets an interest on his circulation, out of which he has to pay the expenses of his establishment, the cost of his notes with the government stamp on them, and the cost of the reserve fund of coin, or notes of other banks, which he must keep by him to answer all demands. The remainder forms

his profit, or the remuneration for his labour, skill, and management.

The establishment of banks of issue to furnish the public with a better medium of exchange than private bills, is, in truth, a simple step in the division of labour, quite analogous to the establishment of any other trade, such as shoemaking, for example, the end being to accommodate the public with some article cheaper and better than they could make for themselves. That the public is benefited by both these arrangements, is proved by their voluntary employment both of the banker and the shoemaker; and where both trades are free, it is to be presumed that competition will keep the profits of each within the limits of what is fairly due to him as the returns for his labour, skill, and capital. I cannot put the nature of a bank-note issue in a clearer light than by quoting the words of Mr. Dyer, the principal manager of the Manchester joint-stock bank, before the Committee of Secrecy:—

‘The issue of bank-notes is merely an exchange of credits. The banker creates and puts out a kind of credit that will circulate freely against one that will not so readily or conveniently circulate. When a merchant goes to a banker for an advance, what he requires is merely an exchange of credits; the merchant takes 1000*l.* to his banker, and the banker gives him 1000*l.* in bills, which he issues payable at thirty days or sixty days, or on demand; and the reason why the exchange takes place is, that the banker’s credit will circulate better than the merchant’s credit would circulate. It is more convenient that the banker’s credit should circulate in small sums as well as in large sums, and it is more convenient and more safe that it should circulate in paper payable on demand than in paper payable at a distance of time; and it is more advantageous to the public to take the paper payable on demand, and to allow the banker to get his remuneration in the interest which the holder of the note is willing to lose, than it is for him to take a bill payable at a distance of time, and to pay a commission, the commission being always a certain expense, while the expense of the interest is under the control of the receiver himself.’

‘To issue cash-notes is not coining money, any more than it is to issue bills at a short date; both kinds of issue being, in fact, nothing more than circulating credit.’ As this circulation is a necessary instrument for conducting the business of the nation, *it would seem hard that the public should not be at liberty to provide for themselves the kind of instrument of credit most likely to serve their purposes best.* ‘We think merchants ought to be allowed to devise the best instrument for conducting the trade of the country which they can invent.’ ‘The notes of the Bank of England have been proved to be a most dangerous and unsuitable instrument; it is contended that at least an experiment should be made as to the possibility of providing a better one without the interference of that company.’ *‘The whole question turns upon what credits it is proper to allow to be circulated as the best instrument for*

conducting the business of the nation, both public and private. In deciding this question, security to the public, and steadiness of value as a purchasing power, should be had in view above all other things. We are of opinion that those objects would be more effectually attained by placing the business of banking on a footing of competition upon equal terms among the parties engaged in business, as public banking companies, with a large paid-up capital.' (4274, 5, 6.)

We see here the natural system of note-issue by bankers, such as it spontaneously springs up to meet the demands of commerce. Uninterfered with by faulty legislative restriction or monopoly, the system continues to improve itself with the progress of wealth, population, and intercourse. Though the credit of wealthy individuals, or firms, established as bankers, circulates more readily than that of private merchants, it is found that the credit of large associations or companies, possessed of a considerable paid-up capital, and offering, of course, a more secure and notorious guarantee to the public, circulates still more readily, and is, therefore, a more convenient instrument of exchange. Consequently, the notes of such companies drive out of the market (as in Scotland) those of weaker banks, and the circulation establishes itself, when left in perfect freedom, on the broadest and most secure foundation.

It is certainly possible that some improvement may be devised superior in its action to the Scotch system of bank-paper issue; but it is very questionable whether any superior system has yet been brought to bear in any part of the world. At all events, there can be no doubt that in those countries where the legislature has taken the most pains to regulate the character of the credit circulation, the effect has been to render it proportionately imperfect, unsafe, and mischievous. While Scotland offers an example of the results of complete freedom, England exhibits those of continued legislative interference. In this country commerce has never been allowed to provide itself with its own instruments. For the last one hundred and forty years its internal circulation has been governed entirely by a central corporation, to whom the government had sold a close monopoly of the supply of credit-money to the metropolis and its environs.

At length, however, the time is arrived when a strict inquiry into the working of this monopoly and its influence on the public interests can no longer be stifled or evaded. It must have at all times been clear to those who thought on the subject, that the body to which was granted the exclusive privilege of circulating their credit in the convenient form of cash-notes in London (the centre of adjustment of all the commercial transactions of the empire), and which was likewise *alone* permitted to base its credit

on the broad foundation of an associated company with a large paid-up capital,—all other banks, even in the country, being, till very lately, restricted to partnerships of five persons,—would possess not merely the monopoly of the circulation of the metropolis, but likewise a dominant influence over the entire circulation of the kingdom, and, consequently, *over the prices of all its markets, and the value of all its property.* That this prodigious and extraordinary power—so opposed, at first view, to the freedom of the subject, the liberty of commerce, and the principle of property itself—was neither conceded originally, nor subsequently renewed, to a private company of traders, upon any deep-founded or well-considered views of advantage to the community, or with any clear conception of the nature of the power thus granted out—is self-evident. The government found its connexion with the Bank extremely convenient for its own purposes; and in the several bargains that have been struck between them, the convenience and interests of these two parties have, there is ample reason to believe, been consulted much more than the general and paramount interest of the public in the establishment of a sound currency. It is only, indeed, since the beginning of the American war, when the rapid increase of the funding system brought the Bank and government into closer communion, that paper has constituted a large proportion of the circulation of the country: so that the power of the Bank has grown into its present amplitude at a comparatively late period, during which external circumstances have concurred to distract the attention, both of the government and country, from any close consideration of this subject, and have left both, it is believed, in almost total ignorance of the extraordinary magnitude and character of this *imperium in imperio*,—this anomalous monetary jurisdiction at present lodged in the hands of a few private, irresponsible individuals. It becomes, therefore, a matter of the very first importance that the charter should be no more renewed, as heretofore, without at least a thorough investigation by the government, the legislature, and the public, of what that power really is which would be thereby continued to the chartered body.

The evidence taken by the late committee, and the very full account laid before it by the Bank of their transactions, throw invaluable light upon this important question. There can remain no doubt upon the minds of those who have perused these documents, of this one fact, that the Bank of England, as at present constituted, under the charter which is about to expire, has an unlimited and plenary power over the currency of the country, which it contracts and expands at its will and pleasure to a very great and indefinite extent,—thereby raising or lowering propor-

tionately, within very short periods, the value of all property, and the prices of all commodities, and altering the calculated results of every commercial speculation, and the understood relations of every debtor and creditor in the empire.

Now this is evidently a power over the public interests far exceeding that committed by the constitution to any one of the three estates of the realm—nay, infinitely surpassing, in the range of its influence over the fortunes and prospects of all the members of the community, that within which the force of public opinion necessarily confines the pretended omnipotence of the entire legislature! From the silence and secrecy with which its operations are carried on, and from the complicated nature of their action, public opinion has no hold over the Bank. And to whom is this colossal power confided? and under what checks and responsibilities? To twenty-four respectable gentlemen, personally engaged in mercantile or money dealings, and appointed to the office by the shareholders of a joint-stock money-dealing company, associated for the sole object of private gain! This company have bargained for, and bought, the exclusive privilege of supplying the focus of commercial Britain with the indispensable instrument of commerce, by which they obtain the power of arbitrarily influencing the results of all commercial transactions, and the value of all exchangeable property; and they have unquestionably the full right to avail themselves of this gigantic power to its utmost extent, for their *private* purposes, without the slightest responsibility to any portion of the public for the damage which it may thereby sustain—that responsibility falling, of course, solely upon the heads of those *public* servants by whom the exclusive privilege was granted!

Now, without stopping to inquire into the mode in which the Bank has hitherto exercised this commercial sovereignty, or to estimate the amount of injury which it may have inflicted on the community, it would seem, *à priori*, to be a monstrous and unparalleled state of things which entrusts such an authority to any private and irresponsible body whatsoever. It is one question, whether such a power ought to exist anywhere, and quite another where it ought to be lodged. But, if the first question be decided in the affirmative, we think the answer given to the last, by any impartial referee, would be ‘Anywhere rather than in the hands of a company of money-dealers, associated for private profit, and, like all mercantile societies, naturally looking to that object only, with a pardonable disregard of the interests of every other party.’ The light, however, I repeat, that has been thrown on the nature of our monetary system by the exposure of the Bank transactions, and the elaborate evidence given by the governor and principal

directors before the secret committee, do most certainly exhibit, to the awe and astonishment of those who may previously have paid but little attention to the subject, or vainly tried to penetrate the veil of mystery by which it has been hitherto cloaked, the complete autocracy of the gentlemen of Threadneedle Street over our property and prospects—the fact that, whatever we have been led to consider as our own lies entirely at their mercy—that the law which professes to protect property is powerless before them—that a merchant or a trader, possessed of thousands to-day, may, in a few weeks, by the influence of their secret but irresistible fiat, be cast into a prison beggared and bankrupt—that the entire nation may, by their favour, be one year elevated to a condition of general prosperity and happiness, nay, even of frantic ecstasy, and at another plunged, by their viewless agency, into universal embarrassment, despondency, and distress. Strange as all this sounds, it is easy to prove, as I proceed to do, from an investigation of the evidence given before the late Committee, that it contains no exaggeration of the fact.

Great misapprehension vulgarly prevails as to the nature of the business which the Bank of England carries on. It is by many vaguely imagined to perform immense services to the commerce of the country, by affording accommodation to mercantile men in the shape of discounts and advances. But so far from this being its principal function, the directors consider it to be a part of the banking business with which they ought to have as little as possible to do, ‘except in extraordinary emergencies,’ as interfering with the appropriate office of the private bankers of the metropolis. The governor says,

‘As an exclusive bank of issue in this capital, it appears to me that the bank cannot beneficially conduct a discount account to any great extent, with private individuals, except in times of general discredit.’ (179.)

In accordance with this principle, the rate of interest charged by the Bank on discounts is always maintained considerably above the market rate; and, in fact, the business which the bank does in this way is inconsiderable, and, perhaps, less than that of many private banking-houses in the city. Its investments in private securities, including loans, mortgages, and discounts, have ranged, during the last six years, only between three and seven millions, out of an average total of twenty-four millions of securities.—(App. No. 5.) This being the case, we may well ask, what is the real business of the Bank? The question is put to the governor,—

‘What do you consider as the principal function which it is the duty of the Bank to perform? To furnish the paper-money with which the

public act around them, and to be a place of safe deposit for the public money, or for the money of individuals who prefer a public body, like the bank, to private bankers.—Are not those functions the functions of a government rather than a private company? That is for the government to determine.—Then the benefit conferred is merely the substitution of paper-money in the place of specie, and not the benefit arising from accommodation to the industrious classes? I think the bank cannot satisfactorily offer that accommodation, while their circulation is so employed by the bankers of London and the country.—(181-4.)

But if the Bank discount to a very limited extent, how, it may be asked, does it issue its notes? The governor answers, ‘By the purchase of public securities and bullion.’

‘Are those purchases necessary for any public purpose? Yes, for the due regulation of the general currency of the country, and for furnishing an adequate quantity of paper-money for the purpose of the circulation.—(189, 190.)—Does the Bank possess the power, if it think proper, of extending the currency or diminishing it, without waiting for the interference of the public? *It has the power.*’—81.

It appears, therefore, that the directors (for all of them agree on this point), consider the chief function of their office to be, *the regulation of the circulating medium of the kingdom*, which they expand or contract as may appear to them expedient. A regal office truly! The enlargement of the issues of the Bank (the pivot of the general circulation) operates on the country issues by lowering the value of money and the rate of interest upon all negotiable securities in the capital. The country bankers consequently find a difficulty in employing there the money they send for investment, and are forced to resort to their immediate neighbourhood for new channels, and this tends to create additional issues in the country at an early period after the London issue has taken place. (361.) A contraction of Bank of England paper effects the exact converse, though perhaps it is not so immediate in its operation. Besides this, the rise or fall of prices in the London markets, which is the necessary consequence of an excess or a scarcity of money, must very rapidly affect the prices in the country; the country dealers narrowly watching the London price-currents. And the issues of country bankers being necessarily determined by prices, must be augmented and reduced with them. The evidence of the country bankers confirms this. ‘The contraction of Bank of England notes operates to reduce the circulation of country banks, just as a drain for gold, arising from an unfavourable exchange, reduces the circulation of the Bank of England.’ (3599.) ‘We are operated upon by the Bank of England; if the Bank is liberal, we immediately find its effect, and, of course, the reverse.’ (1021-4.) The Bank of

England circulation is, in fact, the basis upon which the country circulation rests. As the foundation is enlarged, the superstructure swells in proportion, and diminishes as it is contracted. Indeed, if Mr. Gurney's estimate of the country bank circulation, at between three and five millions only, is correct, it does not amount to much more than one-fifth of that of the Bank of England ; and the control of the entire circulation of the kingdom may be affirmed to be in the hands of that body. (3630.)

The Bank directors are so fully aware of this, and acknowledge it so completely, that they profess to regulate the foreign exchanges, by bringing about a general rise or fall of prices in this country, when they think it advisable, through an extension or contraction of the entire circulating medium. *Their complete power over the currency, and through it over the prices of all the home markets, is the assumption on which their rule for the management of their issues is founded.* Of course, there are many disturbing causes of an extrinsic nature ; a general failure of crops, for instance, or the opening of new markets, will have a tendency to raise prices ; favourable seasons and improvements in the processes of agriculture or manufactures to lower them. But these *natural* causes of variation in prices rather affect single articles than the entire mass ; and over them all the amount of money actually circulating in the country rides supreme ; so that the issues of the Bank of England, forming so great a proportion of the whole circulation, and being that in which all the large transactions of the country are ultimately settled, eventually govern the whole.

But it may be objected that the power of the Bank over the circulating medium, and consequently prices, though absolute during a suspension of cash payments, is, with a convertible paper currency, limited by the necessity of maintaining its notes at par value with gold ; and that it is therefore the value of gold, not the Bank issue, which is the ultimate regulator both of circulation and prices. This is perfectly true. *Ultimately*, the value of gold determines everything ; but locally, temporarily, and to a very great extent, *the Bank action*, as I shall shortly show, *determines the value of gold.* I have said, and proved, that it is the general rise from natural causes in the exchangeable value of this metal, as against goods of all kinds, that has occasioned the general difference between the prices of 1810 and those of 1832. But besides the great and universal variation in the value of the precious metals which is caused by the defalcation of new supplies from the mines coincident with the universal increase of demand arising from the growth of population and luxury, it is subject to frequent minor fluctuations, more or less local and last-

ing, from changes in the temporary demand and supply of particular countries. And these fluctuations peculiarly affect that metal which we have unhappily taken as our exclusive standard. Though not the standard of value in other countries, yet being employed in them all to a greater or less extent as money, and moreover in request as an object of commerce, gold is, from its superior cheapness of transport, as compared with silver, exclusively employed as the medium for settling the balance of commercial exchanges and financial payments between this country and the rest of the world. A turn of the commercial exchanges between this and other countries, occasions an increased demand for gold in that which has the balance to pay; and the transfer when completed produces a comparative excess of supply in that country which receives it. Extraordinary remittances from this country to the continent in payment of newly contracted loans have the same effect, raising the demand for gold here, and increasing its supply abroad. Again; though silver is the ordinary currency of the continent, gold alone is employed for filling the military chests of the armies of the great potentates (4822-4)—so that a war breaking out, or the mere preparations against one, must cause an extraordinary local demand in some parts of the continent, and a deficiency in all those places from whence the metal is drained for this extraordinary purpose. Now, if gold were merely an article of merchandize here, as elsewhere, and not unfortunately our standard of value—these sudden fluctuations in its local demand and supply would only affect its local *price*. When there was a drain of gold from this country, there would be a premium upon it in our bullion-market, proportioned to the extent and suddenness of the demand. When circumstances had caused it to accumulate in this country it would be at a premium in the continental markets. And the cost of this premium would in either case very justly fall upon the parties who had the balance to remit. But our currency being tied down to a gold standard, any accumulation of gold here, instead of simply lowering its *price*, creates an immediate rise in the *prices of all other things*, of which gold is here established the legal measure. This rise of prices in all our markets gives an immediate stimulus to importation, and checks exportation. Merchants write off to their correspondents abroad to make purchases and shipments for them, and the orders they have in their hands for purchases in our markets on foreign accounts are suspended. The exchanges, in consequence, must soon be brought round against us; and thus the only effect of our receiving foreign gold here in payment of balances due to us, is, to enable the foreigner to get it back again at our cost, through the increased sales of his goods in our markets, and the diminished sales of our

goods in his. A still greater disadvantage is the continual fluctuation thus produced in the prices of this country as gold flows in or out: both disadvantages being solely the consequence of our impolicy, in taking as a standard of value that particular commodity which, from its facility of transport, is employed as the medium for settling all international balances of payments.

But by far the most powerful of all the temporary causes of variation in the demand and supply of gold have been, of late years, the frequent changes in the action of the monetary system of England; whereby gold has at one time been altogether dismissed from our circulation, until scarcely a coin remained in the country,—and at another, a new and sudden demand has been created for ten, twenty, thirty, nay, perhaps, forty millions-worth of the metal! That changes to this extent in the demand of one corner of Europe for so scarce an article of commerce must have produced fluctuations of corresponding magnitude in its value, as well in this and in other countries, is apparent. Prices must, of course, have been proportionately affected,—in this country directly, by reason of its gold standard; in others indirectly, partly through the sympathy which the foreign markets with which we habitually deal must always have with our own, and partly through the circumstance, that the two precious metals are, both for currency and other purposes, employed to a great extent in substitution one for another, so that a change in value of the one is followed at no great distance by the other.

Now, in all or the greater number of these changes, the Bank of England has played and must play—as the great source of our paper circulation, and the great reservoir of our metallic circulation—a commanding part. When gold is, for commercial, financial, or political purposes, drawn away from this country in any quantity, it is chiefly from the treasure of the Bank that it is taken, and it is for the Bank exclusively to determine, whether the drain shall or shall not have any influence on our home prices. If the Bank choose to keep up its circulation of paper to the same point as before, no effect is felt in our markets. It may even reverse the natural effect of the drain, which is to lower prices, by increasing its issues as the gold flows out, and thereby raising our prices to an unnatural height. When the gold returns on this country by the spontaneous re-action of the exchanges, it is for the Bank to determine whether it shall have any effect upon our circulation or not. If they buy the gold as it comes in, and yet make no corresponding increase of their paper, the money of this country is in no degree enlarged; and should the Bank contract its issues while purchasing gold, our prices are actually

depressed at a time when the influx would naturally have raised them. Having this power over both the gold and paper circulation, it is evident that the Bank can determine the bullion market at any time in its own favour. Should the treasure be low, and circumstances render it advisable that they should make large purchases of gold, they can obtain it at their own price, even in the face of an adverse exchange, by a violent contraction of their paper; which by reducing prices greatly here must check importation, stimulate exportation, and cause a current of gold to set in upon this country to pay the balance. Or, on the other hand, should the treasure be in a state of repletion, the Bank, by reversing the operation, and throwing large issues of paper and gold upon the markets, can so raise prices here, as compared with the Continent, as to bring about an efflux of gold, and relieve itself of its superfluous treasure with a profit. It is *only* when the Bank contracts its paper exactly as it parts with gold for a foreign drain, and expands it as the gold flows back again, that the effect of these local variations in the demand and supply of bullion are reduced to that which our metallic standard necessarily occasions, and which would happen all the same even though our circulation were purely metallic.

It is evident, then, that the power of the Bank over prices in the British markets is confined within no narrow limits through the obligation of paying its notes in gold; that by its conduct in extending and contracting its paper, and purchasing or selling bullion, the value of gold itself, first in this country and ultimately in others, is arbitrarily influenced to a very great extent; that the Bank has the power of determining the exchanges, and, consequently, whether gold shall flow into or out of this country; that, by accumulating gold at one time in its vaults, to the extent of fifteen or more millions, at another allowing them to be nearly emptied, before any attempt is made to restore the equilibrium, the Bank can influence the market for gold as well as that of every other commodity.

That the Bank *has* exercised these powers in the most arbitrary and unprincipled manner consistent with its own profit and safety, and has thereby produced the most extraordinary fluctuations in prices, as well in the home as the foreign market;—that its operations, of the nature we have described, have been the leading cause of all those sudden, violent, and destructive variations in price, which, since the war, have alternately elevated the mercantile world to the verge of insanity, and depressed them to the depths of despair,—at one time inflated the credit of our speculating traders, till the world seemed too narrow for the development of their powers; at another, by suddenly

withdrawing the basis of their visionary fabrics, brought them to the ground with a destructive crash;—I shall proceed to prove in detail, from the statements now for the first time laid before the public, of the action of the Bank during its long and absolute, but unacknowledged reign.

The governor and directors, on being questioned by the Committee as to what rule they follow in the regulation of their issues, (which, by their own account, regulate the entire circulation of the kingdom,) unanimously declare that their rule is to allow the amount of their paper in circulation to be operated upon by the influx and efflux of the gold in their vaults; that is to say, as notes are brought to them by the public for gold they issue no more to supply their place, and the circulation is contracted by so much; as gold is brought to them to be purchased at their fixed price of *3l. 17s. 9d.* (raised within the last three years from *3l. 17s. 6d.* [212]), they issue notes against it. In this way the amount of their circulation would vary directly with the quantity of gold they possess.

Now this rule, if strictly followed, is unquestionably the best and fairest that under the circumstances could be adopted. It has the effect of making the exchanges operate on prices in this country exactly in the same way as if the currency were wholly metallic, instead of a mixed one. As gold is taken from the Bank for exportation, the circulation is lessened by just as much as if the gold instead of paper were withdrawn from it, and the consequent fall in prices leads to a speedy rectification of the exchanges. As gold returns to the Bank, the notes issued against it enlarge the circulation to the same extent as if the gold found its way into circulation, and the consequent rise of prices, by checking importation and encouraging the export trade, stops the influx of gold, and brings the exchanges again to a level. If the Bank neglect this rule the exchanges must ultimately right themselves, but after a longer interval, and with a more violent and sudden shock. The Bank action (supposing it to follow the rule indicated) would undoubtedly break the force of the alternate jerks, and hasten the correction of the exchanges.

If, therefore, the Bank strictly adhered to its declared rule, however commerce might suffer from frequent fluctuations in price, those sufferings would not lie at her door; they would be attributable solely to our impolicy in taking as our standard of value that commodity which is employed as the medium for settling the fluctuating commercial and financial balances between nation and nation. *But the Bank has never followed this professed rule,* which, in fact, was only discovered by the directors in 1827, and has been but partially acted on since that year; and it has, con-

sequently, superadded to the cruel fluctuations in prices which the gold standard entails upon us, a gratuitous extent of fluctuation created by the irregularity of its own action,—by at one time deserting, at another hastily recovering, the limit which this rule would prescribe to its circulation.

A very brief review of its operations since the termination of the war, as they appear on the face of the Parliamentary Returns, will show the extent to which the Bank has deserted this wholesome rule within that period; and the same facts will exhibit the influence these operations have exercised over the industry, commerce, and economical condition of the British islands. I have always considered it quite impossible to ascertain the true causes of the fluctuations in general prices, which have so frequently convulsed this country during a period of profound peace and rapidly-progressive improvement in all the arts of production—so long as we were kept in ignorance of the proceedings of the Bank, more especially of its dealings in that metal whose value is, under our standard, the regulator of prices. The tables, now for the first time made public, of the variations in the Bank treasure, offer, as I fully anticipated they would, the true key to the variations we have endured in prices. Whoever wishes to learn the secret spring of all the ups and downs of surprising general prosperity and unexpected ruin, which, through a long period of internal and external tranquillity, have upset the deepest calculations of our traders and producers, perplexed our wisest statesmen, and shaken almost to dissolution the very bonds of society, let him attend to the following plain facts.

In 1814 the Bank circulation amounted to twenty-eight millions*; nearly four millions more than it had been but two years before. The country bank issues were, of course; proportionably large. At this time the Bank possessed but two millions of bullion†. The approach of the period for resuming cash payments rendered it necessary for them to provide a much larger stock: but gold was then considerably above 4*l.* per oz. To buy at that price in order to part with it again at the standard price of 3*l.* 17*s.* 10½*d.*, would have been a very losing trade. In order to obtain it at a lower rate, it became the interest of the Bank to *appreciate the currency* by a reduction of the circulation. This, therefore, was done. Within the next two years, the Bank paper was *lessened* by more than two millions, while the treasure swelled from two to ten millions! Here the very reverse of 'the rule' was acted upon. Those, therefore, who maintain the propriety of that rule, cannot but acknowledge the impropriety of the opposite conduct. The 'operation' answered the object of *the*

* Appendix to Minutes of Evidence, No: 82.

† Ibid., No: 85.

Bank: but what was the inevitable result *to the public* of this simultaneous contraction of paper-money and absorption of gold? The first tended to lower prices in the home market, the second to lower them in the foreign market, and thus to prevent that correction of the fall here which would have otherwise been caused by an increased foreign demand. The effect of the continued depression, thus artificially brought about both in the home and foreign trades, was seen in the failure of numerous country banks, and the creation of more general distress through the years 1816-17, than, according to Mr. Horner, had been witnessed since the breaking up of the Mississippi scheme.

The Bank, however, having attained its purpose, the filling of its vaults, and being urged by government to relieve the general agony by a relaxation of its issues, not only consented to enlarge them, but issued likewise several millions of gold coin,—with the view, as the directors declare, of gradually introducing gold into circulation. The notes alone out in the last quarter of 1817, reached nearly to twenty-nine millions. Here, therefore, there were issues both of gold and notes *increasing together*, just as before they had been withdrawn together. And the result was, of course, the precise reverse to that of the former infraction of ‘the rule.’ All symptoms of distress disappeared, prices rose, speculations flourished, and the halcyon days of 1818 and 1819 are remembered with regret to this day by our farmers, manufacturers, and merchants. But the exchanges turning against us,—the natural consequence of our artificially high prices,—the gold, instead of remaining in circulation, flowed out of the country; and when, towards the close of 1819, the directors, who were required, by the Act passed in that Session, to be ready to recommence cash payments in 1823, counted their treasure, they found scarcely three millions and a half in their vaults. Upon this, they set to work, as before, to contract the circulation, that they might buy the bullion they wanted cheap: in the Governor’s own words, ‘to purchase the gold *by reduced prices of commodities*, the Bank withdrawing a given amount of securities in the first instance, the notes for which *might be (they were not)* reissued in payment of the gold as imported.’* In pursuance of this object, the securities which on the 31st August, 1819, had stood at 31,740,550*l.*, were by the 29th February, 1820, reduced to 26,187,490*l.*; and the circulation, within the same time, was cut down from 25,252,690*l.* to 23,484,110*l.* In one year more, the securities had fallen to 20,796,270*l.*, the circulation being but 23,884,920*l.*; while upwards of *eight millions* of bullion had been purchased in that short period. Here, therefore, within a year and a half, namely, from

* Memorandum of Mr. Horseley Palmer, p. 69. Minutes of Evidence.

August, 1819, to February, 1821, was a simultaneous *increase* of bullion to the extent of eight millions, and *decrease* of circulation to that of a million and a half,—being a *third* strong example of ‘the rule’ reversed. As if to make matters worse, the Bank directors, finding their operations so successful in bringing in streams of gold to their coffers, volunteered to pay off their one and two-pound notes two years before they were required by the Act of 1819, and persuaded government to pass an act to enable them to do so. And since at the same time that they issued six millions of gold in exchange for as many small notes, they continued making purchases of more gold to keep up their stock nearly at its former height, the result was, that at the beginning of the year 1822, their circulation was *less* by seven millions, than it had been in 1819, whilst their bullion was *greater* by seven millions and a half! If we are called on to allow for the six millions of small notes cancelled, we must also allow for the purchase of the sovereigns which replaced them. In every way, the difference between the two periods created by the action of the Bank, amounted to a deduction of more than fourteen millions from the money (gold and paper together) of the country. Is it to be wondered at, that during this ‘operation,’ country banks broke by dozens,—just as they had broken during the similar process in 1816,—that the circulation of country notes fell from twenty to seven millions, and that the total contraction ensuing from these combined causes brought down wheat to an average of 37*s.* per quarter, and reduced the agricultural, manufacturing, and commercial interests of the nation, but especially the former, to an utter impossibility of fulfilling their various engagements? To relieve their unparalleled difficulties, the government found it necessary to interfere, by an ‘action on the currency.’ The small-note bill was passed, permitting the one-pound notes of the country bankers to circulate ten years longer, instead of being wholly withdrawn in 1823, and four millions of exchequer bills were thrown upon the market by government.

Then commenced the alternate phase of excitement. During the last quarter of 1822 and the whole of 1823, the Bank note issues were gradually augmented, contemporaneously with a continued issue of sovereigns, and a very great increase in the country bank circulation. Up to the middle of 1824, it appears that the exchanges were in favour of this country; therefore the sovereigns issued would remain in circulation. Of these, about six millions had been issued by the Bank between July, 1822, and July, 1824.* The Bank notes had, during the same interval, increased by more than two millions and a half,† and the country circulation had extended itself still more. The consequence, as

* Appendix, No. 76.

† Ibid., No. 82.

usual, was high prices, considerable speculation, and a turn of the exchange against us. Had the Bank now followed 'its rule,' and seeing gold flow out of the country, contracted its issues, the wild spirit of excitement which was even then visible (in the summer of 1824) would have been checked in good time, and all would have been comparatively right. The circulation having been brought up fully to the legitimate demands of the country, should have been stopped at that point by its regulators. Instead of this, however, what do we find? The Bank circulation, which, in the first quarter of 1824 had stood at 19,665,200*l.*, was *raised* in the same quarter of 1825 to 21,084,470*l.*, while the bullion reserve had *shrunk* from 13,782,700*l.* to 8,857,700*l.** Here was a pretty following of the rule! The note issue was increased near a million and a half, at a time when the bullion, instead of increasing, had fallen off by five millions! Nay, even in the middle of April, 1825, when two millions more of bullion had flowed out, the notes were maintained at 21,084,670*l.*,† or near a million and a half higher than they had been in the early part of 1824, when the stock of bullion was more than double! Then, that is just a twelvemonth too late, the Bank, the supreme regulator of our currency, took the alarm, and suddenly contracted its circulation by near three millions, between the 16th of April and the 18th of June, 1825.‡ Such a rapid contraction, coming upon the excitement and speculative madness of the period—fomented as these tendencies had been up to that moment by the increasing issues of the Bank in the face of an adverse exchange—acted like the jet of cold water thrown into a steam piston. A collapse instantly took place. The bubbles broke. The country banks began to break too. Now, this should have been a signal to the Bank that it was pulling up too quickly. The runs that were taking place against the country banks, carrying in their notes by millions, might have been trusted to effect a sufficient contraction of the paper circulation. Even a liberal extension of the issues of the Bank of England, at that critical moment, would have been justifiable, and would probably have averted the impending catastrophe. Instead of this, the contraction of her issues was rigidly persisted in. Another million was reduced by the end of November; and, in consequence, by that time the *panic* had become general. Seventy banks had given way, one after another; and the credit of the best-established houses, both banking and mercantile, rested on the toss of a die. It was not till the middle of December that the Bank made the discovery that their too tardy severity was likely to recoil upon themselves in a drain of bullion to fill up the void in the country circulation, which would soon not leave them a

* Appendix, No. 82, and 88.

† Ibid., No. 82.

‡ Ibid, No. 83.

sovereign; and that they might safely increase their issues to almost any extent at a time when scarcely a single country note would circulate, their own credit being unimpaired, *and the exchanges in our favour*. This discovery, and the prodigious issue they poured forth thereupon, both of five-pound, and of their condemned one-pound notes, as a substitute for sovereigns, saved them from a stoppage, and quelled the storm; not, however, till it had devastated the commercial and private banking interests of the country with a fury never before equalled.

There appears, as might be expected, great reluctance on the part of the Bank directors, to admit that they erred in excess of issue during 1824-5, and thereby brought on the crisis by which so much damage was effected. But the facts I have stated from their own returns, are too conclusive on this point to admit a doubt. Even if we allow that the speculative mania, which began to prevail in the early part of 1824, was one of those unaccountable intervals of lunacy which are supposed by some occasionally to seize upon trading communities, excited by some casual spark—the opening of new markets—tales of wonderful mining adventures—the demand of new loans from mushroom states, and so forth—and that the Bank was guiltless of originating the delusion; yet it must be borne in mind, that none of these mad schemes would or could have been undertaken but for the superfluous plenty of credit-currency; and that the Bank has the power, and professes to execute the high function of *regulating* the credit-currency of the kingdom. The extraordinary speculations of 1824, however suggested, were indubitable proofs of a redundant currency. The high prices of the same period confirmed the fact. But the drain of gold which set in about the middle of that year, which was recognized by the directors themselves in October as a drain for exportation, and which continued increasing in intensity up to the middle of the next year, was such a *flapper*, as should have recalled them to a sense of their duty, had they overlooked every other symptom. Where then were the wits or the wisdom of the professed controllers of the national currency, when in the teeth of all this multiplied evidence of repletion, they persisted in adding to, instead of diminishing the fulness of our circulation for another nine months? If it could be supposed that the additional issues of the early part of 1824 did not foment the frenzy of speculation, because made against purchases of gold,* at least their utter neglect throughout 1825 of that which they now proclaim to be the one main function of the Bank—the due regulation of the currency by a careful watching of the exchanges—stands confessed as the real cause of the panic and re-action of the close of that eventful year.

* Palmer, Memorandum, p. 70.

Can any one hesitate to believe that if, in the execution of their professed duty, the Bank directors had drawn in their circulation gradually in 1824 and the beginning of 1825, *as they parted with their gold*, the speculative ardour of that year would have been checked before it had proceeded to any vicious extremity, and the nation would have been spared both the disgraceful spectacle presented by the *furor* of 1825, and the destructive hurricane that swept over the country in December? The conduct of the Bank, on this occasion, is thus not unfairly characterized by Mr. Easthope:—

‘When the world was mad, and all sorts of ridiculous speculations were entered into, instead of discouraging them, and pulling up with a gentle rein, the Bank rode with a spur; they issued their notes upon mortgage; they advanced their notes upon stock; they had previously advanced very largely to government to enable them to reduce the rate of interest; and also were making large payments upon the dead-weight scheme. Such was their course. At a time when they ought to have anticipated the effect of so large an issue in every shape and form, they kept on increasing their circulation, till their own credit was endangered, and then, it is very true, they pulled up with a vengeance.’*

In truth, so far from adhering to the ‘rule’ and ‘principle’ of leaving its issues to be acted upon by the public through their purchases and sales of gold, the Bank, besides its discount business, has always dealt largely, and still continues to deal, in government securities of various kinds. Between 1822 and 1825, the greatest pains seem to have been taken to force their issues upon the market, at a time when every investment was already choked, by contrivances utterly foreign to the principles of legitimate banking. Purchases were made of the dead-weight annuities—loans upon mortgage—upon stock—to the East India Company—and to the government, to pay off the dissentients of the navy five per cents.† Even in ordinary times the Bank invests largely in Exchequer bills, temporary advances to government, city bonds, &c. Its payment of the dividends of the public debt further occasions the greatest irregularity in the amount of its issues. It is by these various means, the employment of which seems to be regulated by no general rule, but solely according to the convenience and interests of the Bank, or, at best, the vague notions of the directors as to the wants of the public, that the Bank often suddenly contracts or expands its issues to the extent, as appears by the returns, of two or three millions in a week! It is difficult not to view this mode of investing their funds in much the same light as Mr. Easthope, who says,—

‘Here are twenty-four gentlemen, all connected with mercantile

interests, who find it necessary from their knowing, as Bank directors, more than any other persons in London, to contract the Bank paper; and they then invent various private modes of doing so. We have been led to imagine, but whether true or not I do not know, that Exchequer bills have been sold with such great privacy that it has not been known, even in the market, that they were the Exchequer bills of the Bank of England. I consider it objectionable that any twenty-four gentlemen, connected with commerce, should have in their sole possession the government and knowledge of circumstances which must pervade all interests, and regulate the value of all property. I consider, that every man with common diligence, and the common means of information, should have the same power of acquainting himself with that which regulates the value of his property, as those seven or eight out of the twenty-four gentlemen in the Bank direction, who form the Committee of Treasury of the Bank of England.*

That it is utterly impossible for any seven or eight gentlemen, sitting in a private room in Threadneedle Street, even if they were necessarily *ex officio* Solomons and Scipios, justly to determine the quantity of money at any moment required to carry on the *bonâ fide* transactions of all the buyers and sellers in the empire, needs, perhaps, no demonstration. The exchanges, if they followed them strictly, might be a tolerable, though by no means an infallible guide—but this is a principle which they have only adopted within the last three years. By their own acknowledgment they have, up to that time, exercised their enormous and irresponsible power over the property of every individual in the three kingdoms, upon a *false principle*. And who will guarantee the correctness, or the permanence, of their present rule of conduct? Who will ensure us against having a new edition of ‘the true principle of Bank action,’ with the next biennial change of governors? Besides, the rule, as appears from their practice, admits of continual exceptions. And who is to judge of their necessity? ‘I,’ says Mr. Palmer; and ‘I,’ says Mr. Norman: ‘the court awards it, and the law allows it.’ But the Bank parlour autocrats, it must be conceded, are fallible. Nay, even admit them to possess infinite wisdom and knowledge, is it certain that their *interests* are necessarily coincident with those of the public? or that their *duty* is to pursue the public interest in preference to any other? I say nothing of their private interests, as individual merchants or money-dealers, because I have no doubt of the purity and integrity of the directors; and cannot anticipate their availing themselves of the power they undoubtedly possess, to realize vast sums of money by a very simple and easy operation, almost impossible to be detected, at the expense of the public. But the directors are, after all, only agents of the Bank proprietors; and it is

their bounden duty as such to look to the interest of their constituents, and that alone, as the guide to their conduct. Nothing, indeed, in the whole body of evidence, is so surprising as the unconscious inconsistency with which these gentlemen, the paid servants of a completely private banking company, candidly acknowledge the vast powers they wield over the property and welfare of the *public*, and speak of the deep sense they entertain of their *duty* towards that public,—when nothing can be well clearer than that they are bound by their appointment to look to the private interests of their constituents as their first, nay, their only consideration. Some of them profess to believe that the interests of the Bank proprietors, and of the public, are the same, and can never come into collision. But this is manifestly false. When, indeed, were the interests of a body of traders, possessing an exclusive monopoly, coincident with those of the public? It has been shown that, when the Bank treasure is low, it becomes its interest to starve the circulation, and lower prices, in order to purchase the gold it requires at a cheap rate;—that when the treasure is in excess, it becomes equally interested in over-issuing in order to bring on a demand from the public for its surplus gold. The Bank, in fact, as a dealer in bullion, is enabled, through its absolute power over the circulation, to lower the value of bullion when it wishes to buy, and to raise it when it desires to sell; while both operations are equally prejudicial to the public, by creating a factitious rise or fall in the prices of every commodity in every market! And yet we are told the interests of the Bank are identical with those of the public!

That the Bank, for these its private purposes, has frequently (and justifiably, as I contend, in a private body) broken through the rule of conduct which the directors themselves now maintain to be essential to a safe state of the currency—nay, that its conduct since the war has been, at every critical epoch, directly the reverse of that rule—I have shown at length. But has the Bank suffered with the public on these occasions? We look in vain for symptoms of such losses in the statement of the large dividends and bonuses shared amongst its proprietors. In 1816, the year in which such general commercial distress had been brought on, and so many private banks broken through the conduct of this establishment during the three or four preceding years, the Bank added a bonus of *twenty-five per cent.* to the capital of her shareholders!* Since 1823 it is true that the annual dividend has been reduced from ten to eight per cent.; but this reduction is by no means equivalent to that which has taken place in the returns of all other investments; and the

* App. No. 34.

value of Bank-stock has consequently increased. Even in the last instance of fatal mismanagement, as regards the public interests, in 1825, I cannot perceive that the Bank participated in any degree in the enormous losses endured by the commercial community on that lamentable occasion. On the contrary, it seems very clear, that the Bank must have realized a very extraordinary profit on its transactions during that period of general dismay and ruin. The debtor and creditor and profit and loss accounts given in the returns to parliament reach (it is difficult, without supposing intentional concealment, to understand why) no farther back than 1829, so that we have no *direct* statement afforded us of the amount of the gains of the Bank from the commercial havoc of 1825-6. But a single glance at the state of its affairs in those years, as compared with the preceding or subsequent ones, is sufficient to show that these gains must have been very large—little short of a round million. For instance, the securities bearing interest in the hands of the Bank during the years 1821-2-3 and 4, average about eighteen millions; whereas, in 1825-6, they average twenty-seven millions!* And since the greater part of the increase consisted of private paper (of which fifteen millions was taken in January 1826) bearing a very high, we believe the highest, legal interest, the extra profits to the Bank, occasioned by its extraordinary business in 1825-6, could hardly fall within four-and-a-half per cent. upon nine millions, or, for the two years, 810,000*l.* To this is to be added the profit on the great issue of gold coin during the drain and panic, which at fourpence-halfpenny per sovereign (being the difference between the purchase and the selling price), on upwards of ten million sovereigns, must have amounted to 200,000*l.* more; making altogether an extraordinary profit, during the years of speculation and panic, of more than a million! a profit growing directly out of the losses sustained by the public at that time through the operations of the Bank! Against this enormous gain there is nothing that we can perceive to set (for the loss on the bad bills discounted during the panic only amounted to 58,000*l.*, of which 16*s.* in the pound are already paid),† except a little extra trouble and anxiety.

As for the danger to which the Bank is considered to have been exposed, it was really nothing. Though the ministry seem to have been slow to grant the governor a pocket order in council for suspending their payments when he thought necessary; yet the fact of its solicitation by the directors proved that they looked to this as a resource always at hand. And if the tide had not turned before the order was wanted, it would probably have been resorted to *in extremis*. At all events, the

* App. No. 5.

† Ibid. No. 57.

example of 1797 proves that the Bank itself would have suffered nothing from a stoppage or a suspension of its cash payments, whatever agonies and throes the country might have undergone. The ultimate solvency of the establishment being secured by its great capital,—and no other paper existing,—the merchants and bankers of the metropolis would have been necessitated, for their own sakes, to make common cause with it, and agree to employ its paper as usual, though not convertible. In fact, with its sovereign monopoly of the circulation, there is little reason to doubt that a stoppage of cash-payments would turn out again, *as it did before*, a very profitable occurrence to the Bank of England.

Enough has been stated at least to show how false is the assumption on which it is argued that the interests of the Bank and of the public are one and the same. It is notorious that, through all the chapter of accidents—the ups and downs which, since 1780, have kept our currency in a state of almost perpetual fluctuation—a fluctuation caused, as has been repeatedly proved, by the operations of this overwhelming company—the Bank itself has contrived to emerge unharmed in every instance from the sea of troubles it had stirred up—has been found indeed, after all of them, not only to have escaped all damage, but to have considerably improved in its circumstances, while the destruction, in every other quarter, was universal. Mr. Richards himself acknowledges that the two interests *are* often opposed; and claims credit for having, in his official capacity as governor and director, always espoused the cause of the public. The public is, of course, duly indebted to him for his benevolence. The proprietors by whom he was elected, sworn, and paid, to look after their interests exclusively, may perhaps view his gratuitous patriotism in a different light. He says,—

‘ I am satisfied the Bank would never look to the dry question of profit and loss, where the general welfare was at stake. I am sure there are repeated instances in which they have shown that. *Had the Bank pursued a different conduct, I should imagine their profits must have been upon a much larger scale. But I must always contend that the Bank have used their power with moderation.*’*

We do not dispute the forbearance and moderation of the gentlemen of the Bank parlour, who probably might have quite annihilated the industry of the country—instead of only bringing it three or four times to the brink of destruction—if they had been less compassionate. But we, on our side, must protest against any private body, not directly responsible to the public, being entrusted with a colossal power of any kind over the public interests, by the use of which they might, as is here acknowledged, if they

choose, greatly increase their profits at the expense of the general welfare.

That such must be the common opinion of the mercantile and industrious classes throughout the country—of all, indeed, who are interested in the security of property, which does not exist where there is no stability in the value of money—can hardly be a question. I extract from the evidence before the Committee the opinions of Mr. Burt, a highly intelligent merchant of Manchester, and one of the managers of the powerful joint-stock bank recently established in that town :—

‘ The objections to the existing system are, that the Bank of England has a secret and despotic influence to control the destinies of our commerce, which influence we feel to be a most pernicious one.’ ‘ I am fully convinced, that all the great periods of panic and disaster to our commerce are, in a great measure, to be attributed to that power which is exercised in secret, and which the public can have no knowledge of, but through its effects on their interests.’ ‘ I believe that this power has not only produced a great many instances of mischief, but is constantly doing it: it is continually either raising or lowering the value of money, without any alteration in the commercial or other circumstances of the country; and that such a power has been exerted for the interests of the Bank, without any regard to the interests of the public. And the fact of its always having turned out, that the Bank of England secures itself, while the country bankers cannot secure themselves, shows that the country bankers, upon whom we must necessarily depend, are rendered insecure, in consequence of the overwhelming influence of the Bank of England. And we say, that a company, having such a vast influence, and exercising it in secret, is a dangerous institution, and that we can devise plans by which we can obtain a better circulation than what we have had hitherto, the present being in all respects the worst possible, because there is nothing of stability or steadiness about it.’—(4206.)

Mr. Dyer declares,—

‘ The most judicious, and the best-laid commercial schemes, are frequently defeated by what takes place in the issues of the Bank of England. A merchant naturally forms the best estimate he can with regard to what will take place. What the price of the commodity is at the time he knows, and he must form the best opinion he can as to what the price will be some two or three months hence; but there is the greatest uncertainty thrown upon this point, in consequence of the fluctuations of the paper of the Bank of England.’ ‘ I believe that fluctuations would take place naturally, but that they would not be so great as they are at present; and, consequently, to give the power to create an artificial fluctuation is, in my opinion, a bad thing for the country.’—(4453-5.)

I have shown, indeed, from the returns given in by the Bank

of its own operations, that, in as far as they have influenced the currency (and their influence over it has, by the admission of the directors themselves, been incessant and complete), instead of regulating and steadying it, they have, through the combined effect of their purchases and issues of bullion, and contractions and expansions of paper, *maximised* its irregularities, and heightened, if they did not wholly cause, those ruinous oscillations in prices, to the extent of twenty, thirty, forty, nay even fifty per cent., which have alternated three or four times since the termination of the war. By adding their deranging influence upon all money contracts to that of the general depreciation caused by the growing scarcity of the precious metals, these arbitrary operations have turned all industrious occupations into a lottery—but a lottery in which the value of the prizes by no means equalled the cost of the blanks.

What, in fact, are the chances to which a farmer, trader, merchant, or manufacturer, has been exposed when investing his capital in some productive occupation—exposed too, during a period of profound peace, which should have been attended by complete security? The natural circumstances likely to affect the demand and supply of the article in which he speculates, he is prepared for, and calculates upon. But besides these unavoidable contingencies, his best-laid plans have been liable to complete overthrow by the hidden circumstances that were constantly at work to alter the value of the money in which he makes his engagements. *First*, the gradual but relentless rise in the value of *the standard* since 1810 has been working against him throughout. *Next*, there have been the frequent cross fluctuations in the value of that same standard, arising from casual circumstances temporarily affecting the relative demand for gold on the Continent and in this country—an altered balance of trade—a sudden importation of foreign corn—a revolution in a foreign state causing a hoarding of coin—preparations for war, occasioning a demand for gold to fill the military chests. For these two classes of fluctuations we are indebted to our peculiar standard. *Thirdly*, is to be superadded the results of the mismanagement of our paper circulation at home by those who have become possessed of a supreme power to contract or expand it, as they please, to almost any extent. Under the joint action of these several causes, we have seen, within a few years past, prices fall and rise alternately by twenty per cent. at a time—all debts forcibly augmented and lessened in proportion, and all money contracts substantially violated—one class defrauded to enrich another—and the whole course of business repeatedly deranged. No man has been certain of the amount of his income for two successive years—no

man could feel any confidence of getting back the capital he had embarked in any productive employment which required time for its accomplishment. The different branches of business have been merely different games of chance; and confusion, dismay, and panic—such, perhaps, as were never witnessed in any country not overrun by a victorious enemy, nor devastated by some great natural calamity—have been created in this, year after year, by sudden variations in (that of which the very essence *ought to be* absolute invariability) the value of money. And yet we boast of the security of our property, and the protection afforded by our laws to the gains of industry! It seems to me quite evident that our radically defective system of banking and currency can no longer be tolerated after the light has once been let in upon it;—that the monopoly of the Bank of England, upon which the whole awkward and ruinous structure rests, can be borne with no more. In principle it is directly opposed to all sound theory. In practice, it has been productive of the most disastrous results to the commerce and industry of the nation; and, from its nature, it must continue to produce those results until a better system is substituted. The great question is, What that system ought to be?

CHAPTER III.

Suggested Improvements in Banking System.

THE first point which suggests itself in this inquiry relates to the comparative advantages of a system of *unity* or *rivalry* in the paper-issue of the metropolis,—perhaps, of the kingdom. Now it seems to be generally recognized, that the only means of reducing, within the narrowest possible limits, the fluctuations in prices which inevitably attend the variations of the foreign exchanges, is to regulate the issue and withdrawal of paper by a careful watching of the influx or efflux of gold between this country and the Continent. The question, therefore, resolves itself into this, whether the exchanges are likely to influence the conduct of conflicting banks, acting in competition with each other, and each attempting to make profit over their rivals, so certainly as that of a single bank or board of note-issue, responsible to the public, and perhaps to government or parliament, for regulating its issues strictly by the state of the foreign exchanges? This precise question is put to Mr. Smith, one of the Directors of the Manchester Joint-Stock Bank, and answered in the following terms:—

‘ Upon the great principle of self-preservation, every bank would

naturally take care of itself ; and if there were in London five, or six, or seven large banks, if one of those banks over-issued at any particular time, its notes would naturally find their way into the other banks, and the exchange, in London, would be regulated just as it is in Edinburgh or in Glasgow ; an over-issue by one bank would cause the notes of that bank to go to other banks, in greater abundance than what was held by the opposite bank, and they must immediately pay for their over-issue. ' This is the greatest and best check I know of for preventing banks from over-issuing.' ' The banks in Scotland are prevented from over-issuing paper, because their issues are corrected every week. They exchange, I believe, twice a week, and if one bank issues a greater amount of paper than it ought to do, it does not get the same aggregate amount of paper to exchange with the other banks, and therefore it has to pay the balance immediately by a bill at sight on London—which is, in fact, an order for so much gold.'

In fact, in the words of Sir H. Parnell, ' the Edinburgh bankers are kept under control, as to the management of the currency of Scotland, by the state of exchange between Edinburgh and London, just as the Bank of England is, or ought to be, kept controlled in its management of the currency of London by the state of exchanges between London and foreign countries.'*

On the other hand, the greater number of the bankers and others examined before the committee certainly give their opinions strongly against a competition of issues in the metropolis. It must, however, be remarked, that the London bankers ground their opposition either on a vague dread of innovation, or on the presumption that the establishment of joint-stock note-issuing banks in London must materially lessen *THEIR* business, and *therefore* prejudice the public. Now it seems self-evident, that the public may be safely left to take care of itself in this matter ; and that if a large number of the traders of the metropolis were to prefer banking with joint-stock companies, of which they would probably be shareholders, rather than with the existing private banks, it must be because they find their advantage in it. The anxious solicitude of the bankers, lest the public should injure itself by deserting their counters, is indeed rather amusing† ; and affords a key to the almost general desire of the London bankers for a renewal of the privileges of the Bank of England. Sir Coutts Trotter, being asked his opinion, says, with a pleasant egotism,—

' The effect of allowing joint-stock banks of issue to exist in the metropolis, would be to occasion considerable inconvenience to *bankers, circumstanced as we are*, and as, I believe, all the established banks at this end of the town are.' . . . ' Our currency consists at present

* Plain Statement of the power of the Bank of England, p. 68.

† See Glynn, 3083.

entirely of the legal coin of the country and Bank of England notes ; *both are so happily constituted, both in proportions and in quality, that I do not conceive anything could be more convenient for a person exercising the business of a BANKER in London*.*

Few have ever doubted the convenience of the present system of currency to the *London bankers* ;—more especially as the first result of an improvement upon it would probably be to enable the public to obtain interest on their deposits, as in Scotland—an advantage which in London is never enjoyed. But *the public* has not been examined before the Secret Committee, or its notions of its own interest would perhaps have differed something from those professed by the London bankers. None can object to the opinions of these gentlemen being taken ; and on the contrary, those who study the subject must have profited much from them ; but I trust it will be borne in mind, that upon this question they bear towards the public much about the same relation, as would so many ferrymen examined as to the advantages of a projected bridge over their ferry.

Taking a calm, unprejudiced, and disinterested view of the question, I experience considerable difficulty in determining between a unity and a rivalry of the metropolitan circulation. Principle is, unquestionably, at the first view, in favour of the latter. In nearly all other things, competition is the only guarantee against fluctuations in the proportion of their supply to their demand. All-important as is the due supply of money to the commerce of Britain, it is yet not more important than the due supply of the necessities of life, bread and meat for example, to the vast population of Britain's metropolis. But what would be the reply of any one who—insisting on the disturbances and convulsion, the suffering and danger, that must ensue from any considerable deficiency of these necessities to such a vast population, and on the ruinous waste which any excess must occasion—should, with a view to secure the precise and equable adjustment of the supply to the demand throughout the year, propose to charter a company, or appoint a government board, with the exclusive privilege of supplying London with bread and meat ? Would it not be answered, that the proposed method is exactly the one most likely to occasion inequality in the supply—that the neglect or mistakes, the indiscretion, or ignorance, or fraud, of the few individuals to whom the management of this important business must be intrusted, might, and in all probability would, occasionally compromise the existence of a million and a half of people, and bring upon this mighty centre of wealth and industry all the evils of alternating scarcities and gluts of provisions ? Would not

* Trotter, 3199.

the proposer of this scheme be referred to the *fact* of the mode in which this great population is supplied with its daily food,—quietly and effectually—without bustle, without organization, or even combination—without excess, as without waste—the supply so equably adjusted to the demand, that the prices of butcher's meat and bread do not perhaps suffer a variation of the fraction of a farthing throughout the year, which may not be accounted for by causes affecting the original sources of supply. And what is it that performs this daily miracle,—which only does not excite our continual admiration and astonishment because it is self-effected, with all the order, ease, and certainty, of a great natural process? Why, *the principle of competition*;—the free rivalry of thousands of individuals, each acting in his own sphere, each actuated by the unerring instinct of self-interest, to sell as much as he can, and yet to provide no more than he can dispose of without loss—to *keep the supply full, but to prevent excess.*

Now is there anything to prevent this simple principle from working quite as beneficially in the supply of this great metropolis with money, as with the necessaries of subsistence? If freedom of butchering and of baking be the means of ensuring an exactly adequate supply of bread and meat to this vast market—why would not freedom of banking be the means of affording to it an equally regular, safe, sufficient, and methodical supply of money? We have ample experience of the security afforded by open competition in the one case. We have as ample experience of the insecurity occasioned by an existent monopoly in the other. And in Scotland we may see the happy results of a system of perfect freedom in banking and note-issue practically exemplified. It must be acknowledged, that the case in favour of opening the metropolis of Britain likewise to a competition of banking companies is a strong one.

On the other hand, it is an innovation of great magnitude, and would proportionately interfere with a large mass of interests and habits that have grown up under the present system. It is, too, an experiment necessarily accompanied with much risk, since, however well it might eventually be brought to work, considerable disturbance and derangement might occur before it had settled down within its proper and safe limits. Still, this, though an argument for its cautious and gradual introduction, and for dove-tailing it as much as possible into the present order of things, would certainly not justify its absolute rejection—since the same reasoning applies to every change, however valuable. It may, likewise, be safely asserted, that no disturbances of the currency and of the markets to which it might give rise, could exceed in violence and mischief those which the present system of monopoly has occasioned.

If, however, I see reason for hesitating between the alternatives of a single source of issue for the metropolis, and a rivalry of banks—of this at least there can be no question, that if the former system be determined on, its management must no longer be confided to a private association, but to a regular department of government—a board of commissioners—composed of persons duly qualified for exercising so important an office, but neither themselves engaged in trade or banking, nor having any private interest in the fluctuations of the money-market; above all, responsible to the public, and to the public *only*, for the due execution of their office. After the exposure that the present system has now undergone, it will, I am confident, no longer be tolerated, that *the power of regulating the value of all the property, and the prices of every market in the kingdom, should be made a matter of bargain and sale—should be leased out for a term of years to a private money-dealing company, authorised to make what they can out of it during the term of their contract.* Should, therefore, a single central pivot to the general circulation be considered desirable, it must be entrusted to a body of *public* servants; appointed especially to that end, and *removable* by parliament or the government if they should fail in their duty or discretion. The paramount interest of the entire community in a sound and sufficient currency must no longer be left to the mercy, forbearance, and judgment, of the irresponsible gentlemen of the Bank parlour.

Of plans for a *national* or state bank, there are many before the public. Mr. Joplin's* is simple; being, in fact, little more than a transfer to a government board of the powers and duties now professedly undertaken for the public service by the Bank directors, in respect to the issue of notes.

He proposes that national paper be made legal tender; that the national bank, having issued the requisite quantity of paper to supply the actual demand, should be required to preserve the *par value* of gold, by giving out notes at the mint price for all the bullion brought to it, and giving uncoined bullion for its notes when presented, at the same price;—all issue for any other purpose than the purchase of bullion being strictly prohibited. The currency could then only be increased when the importation of bullion proved it to be deficient, or diminished when the export of gold showed it to be redundant. The increase and decrease would take place in all respects precisely as if the currency were wholly metallic—while we should enjoy all the benefit resulting from the greater cheapness and convenience of paper. The national credit backing the notes, would, of course, secure them

* The Currency Question Analyzed, p. 141.

from the possibility of discredit, and guarantee us from the evils of panic. This is, in fact, Mr. Ricardo's plan for a national bank, which Mr. Joplin accuses that gentleman of having borrowed from him without acknowledgment. There is, however, little room for such a charge, since the plan differs scarcely at all from that 'for an economical and secure currency,' recommended by Mr. Ricardo to government, many years before the publication of Mr. Joplin's work; the difference being solely the substitution of a government board for the Bank directory. That plan was temporarily adopted by parliament in 1819; and, perhaps, the evils which our commerce and industry have sustained since that period, might have been avoided if its adoption had but been permanent. The notice to the Bank to prepare to pay its notes, not in bullion, but in *coin*, by a fixed date, was indeed, as I have shewn, the exciting cause of all the subsequent mischief.

One leading objection occurs to both these plans. There can be no question that as the population and capital and productive capacity of this country are augmented, it will require a proportionately augmented circulation. Now, under Mr. Ricardo's scheme, as under the present (supposing the Bank to act up to its declared rule), there is no provision for any such increase, except against an equivalent increase of the bullion in the national treasure. But since the internal circulation would exclusively consist of the national paper, which could scarcely under any circumstances be discredited, the treasure need never exceed the amount which experience would point out as sufficient to answer any occasional foreign demand for the payment of commercial balances against this country. And to retain a surplus beyond this, would not only be a waste of the national capital, but cause, moreover, a needless enhancement of the standard. Yet it would be impossible to reduce the stock of bullion as it exceeded this limit. For even if exported as merchandize, or in payment of our colonial expenditure, it would only be so much added to the balance by which our exports already exceeded the imports, and must shortly be returned upon this country again in payment of that balance. In fact, this accumulation of treasure during a long continuance of favourable exchanges, occasioned by the rapid development of our national industry, was precisely the circumstance which led the Bank of England so often to increase its issues at such a time beyond their due proportion, in order to create a turn in the exchanges which might enable it to get rid of its surplus of gold. How then is this difficulty to be removed? It appears to me sufficient that the national bank should be required to regulate its issues, not through actual purchases and sales of gold at the mint price, but according to the market price at which gold

may be bought or sold; expanding or contracting its issues in proportion as that price, on the average of definite periods, falls below or rises above the mint price, so as to preserve the market price always within a certain small fraction of the standard. If gold then flowed into this country through a favourable course of exchange, so as to bring down its price a trifle below the standard, it would be the duty of the commissioners to increase their issues of paper in proportion. This they might do by purchase of government securities, according to the present practice of the Bank. If it happened that the exchanges turned against us and the price of gold showed a tendency to rise (which, however, I conceive, would under such a system rarely occur), the commissioners should, by sale of securities, buy up and cancel a sufficient portion of their notes to bring down the price of gold to the standard.

There can be no reason to fear lest a temporary deficiency of gold in the hands of the bullion merchants, to meet any occasional demand for sudden exportations, might cause a rapid and considerable rise in its price. Gold is always to be had from the Continent, when wanted here, at a very slight advance in price. What says Mr. Rothschild, the largest dealer in Europe in such valuable remittances? 'The price of gold levels itself at Hamburg, at Paris, and at Amsterdam—within a quarter per cent. in all the three places.*' If a quarter per cent. will bring gold from Paris to Amsterdam to meet the demand, there need be no doubt of our obtaining it in London at a very trifling sacrifice whenever we want it for foreign remittance, if it is not to be had in sufficient quantity here. In fact, our merchants will then be placed exactly in the same position in this respect with their foreign correspondents, who, when they want to remit gold to settle a balance, have occasionally to pay an agio for it. And this is as it should be. If Mr. Rothschild, in execution of a contract for a foreign loan, or for any other financial purpose, wishes to remit half a million or a million of money to Paris or Hamburg, it may answer his purpose even with the exchange at par or slightly in our favour, with a view to secrecy, to remit in specie rather than in bills. Under the system of note-issue upon bullion, his operation would cause a sudden equivalent contraction of our currency—such as might be severely felt in every market of the kingdom. Why should this be? Why are the speculations of all our producers and dealers to be liable to derangement by every operation of the great international money-brokers? The plan here proposed of regulating the circulation, by reference to the market price of gold, on the average of definite periods—three months for instance,—would preserve the *par value* of the metal quite sufficiently for every sound purpose

of commerce, and would confer a steadiness upon the currency which it can never obtain, so long as its *immediate* convertibility into gold causes its amount to vary with every casual exportation or importation of that metal. Undoubtedly, as was before hinted, silver would be a far less variable and therefore a preferable standard. It is not, like gold, liable to rise in value five or six per cent. at once from a sudden demand for military chests—purchase of foreign corn—loan remittances, or other casualties. And a return to this our original standard would greatly lessen,—without, however, entirely removing—the fluctuations in the value of our money. With a silver standard, a national paper, inconvertible, but strictly preserved at par by a Board of Issue, responsible to the public through Parliament, and checked by the publication of its proceedings, would form, perhaps, as perfect a system of currency as can be devised.

To judge from the ‘Evidence,’ there appears among the Bank directors and London bankers examined, as well as their examiners, a strong opinion of the propriety of making the notes of the Central Metropolitan Bank legal tender. This would, of course, be an essential character in a *national* paper. Nor can I conceive the possibility of a reasonable objection being raised against it. I have always considered it eminently absurd that the law should insist upon every note-issuing bank, as well as every debtor, paying his money engagements in coin; when it is notorious that the money liabilities at all times outstanding exceed a *hundred fold* the total of coin in the country. Why tie down debtors to perform a physical impossibility? Why expose useful establishments to bankruptcy, and the public to the distress that follows the destruction of a bank, by requiring a *mode* of payment which the most trifling casualty—such as the fall of an old apple-woman before their doors (as happened in 1825)—may render impracticable even to the most solvent houses in the kingdom? Such a law is a premium upon panic. It holds forth a boon to those who are foremost in distressing a bank, and spreading an alarm as to its solvency, or in endeavouring to distress the government through the banks. It is the duty of a government to provide *real security* for the payment of all creditors indifferently, in the full value of their demands. But the present system produces the utmost *insecurity* to the mass of creditors, by enforcing the unconditional and instant payment of those who are the first to run upon a discredited bank, in a coin of which it is morally impossible that the most solvent establishment in the land should ever have enough by them to pay one-fourth of their liabilities! The utmost security should be given to well-grounded distrust. But it is only to open the door to groundless panics, and partisan or

political runs, to promise what is impossible—an universal and instantaneous convertibility of all money engagements into coin.

What would be the most frightful feature in any political convulsion with which this country might be visited, whether arising from internal commotion or foreign invasion? Without doubt, the instantaneous breaking of every bank in the kingdom, the Bank of England inclusive, by a sudden rush upon them for gold, to be *hoarded* by nearly every owner of money obligations in their neighbourhood. What would a reserve of ten or twelve millions avail against a demand for perhaps two or three hundred millions? The fifteen millions in the savings banks alone, if taken out, as they might, and probably would be, by their depositors in a week, would exhaust every possible reserve. ‘But the government might step in, as in 1797, with a suspension order;’ not, however, till the mischief was done—not till nearly every bank was broken, and business was at a stand-still from the want of a medium of exchange and the destruction of all credit—not till the horrors of a commercial and pecuniary crisis had been superadded to the political risks which first gave the alarm. The plain sense of the matter is, that the public in this respect, as in many others, is like a fanciful and fearful child, and must, for its own sake, be prevented from injuring itself by the indulgence of causeless alarms and senseless fancies.

When all paper is made instantly convertible into coin at the will of the holder, a weapon is put into the hands of ignorant masses, which, actuated by sudden panic or the crafty impulse of some desperate demagogue, they may wield in blind fury to the utter destruction of themselves and their dearest interests. There are times when the public, as Mr. Rothschild expresses it, take fright and run for gold like a flock of sheep (*swine* he should have said) rushing headlong down a precipice to save themselves from an imaginary danger.

‘The little shopkeepers and people of that kind do not stop to enquire, but they say, “I will get my money while I can, if I wait another week I may not get it.” If the Bank once begin to have a run upon them, you do not know where it will end; if once people get frightened, it is like a flock of sheep, they all run, and the whole nine millions may go before any man thinks of it. The little people begin the run, but after those little people there will be people who will fetch their three, or four, or five thousand pounds. A banker told me lately (in May last) he had an order to fetch twenty thousand sovereigns, and lock them up in his iron chest, and a week after the same gentleman came to him again, and said, Do me the favour to fetch me ten thousand more sovereigns.’—(4931—7.)

We have the assurance of the governor and every director of the

Bank, and of every banker and mercantile man to whom the question was put by the committee, that under the law enforcing immediate convertibility into coin, no prudence or precaution in the management of the circulation can obviate the occurrence of runs and panics, such as those of February, 1797, December, 1825, and May, 1830, caused by internal or political discredit. Why then keep up such an explosive state of things? Is there any necessity for building our whole monetary system on a magazine of gunpowder, which any fool or madman, or an unavoidable casualty may ignite? Certainly not. All that the law should aim at, all that any creditor can justly require, or in his sober moments desire, is, security that the sums due to him shall be paid in a medium of exchange which shall preserve its value or 'power of purchase.' People only run for *gold* during a panic, because they fear that no other kind of purchase-power will be worth anything. Give them security that some particular kind of paper-issue shall under all circumstances preserve a parity of value with gold, and that kind of money will answer their purpose and satisfy their wants exactly as well as gold. The panic of 1825, when at its height, was stopped in the country at once by the issue of Bank of England one-pound notes, which the public justly looked upon as equivalent to sovereigns. This too is a promise which *can* be given with every certainty of its fulfilment under every emergency. The promise to pay gold is one which every body knows *cannot* be fulfilled on any emergency—that is to say, at the only time when the holders care about its fulfilment. The first who run in and claim payment may get served, and 'the devil may take the hindmost.' In point of fact, the pretence of promising to pay every demand instantly in gold, instead of being a security, only exposes to real loss those who are unwilling to risk the security of the country by the indulgence of unfounded alarms.

National notes can never be discredited—resting as they would on the credit of the entire nation—proved good for a thousand millions already—and on the certainty of their being taken in payment of the debt and taxes. But it is feared by some that they might fall to a discount from over-issue. The usual, and indeed the only plausible objection to a national paper, is, the danger of its abuse by the government in a moment of embarrassment for want of funds—as has happened with the state paper of so many of the continental governments. But is there really any analogy between the cases? The continental governments alluded to are absolute—and the shameful depreciations of state paper to which they have at times resorted (though even they have subsequently shown their sense of the error by endeavours to restore its value at a considerable sacrifice) are only one of the many practical abuses

to which a despotic authority is liable, but can afford no ground for the belief that the same knavery will be practised by the responsible government of this country, if the power were conceded to it. In truth, however, there would be no difficulty in rendering the Board of the National Bank (or *State Paper Office*) as entirely independent of the executive as are the present Bank directors, and far more directly and clearly responsible to the public through parliament. The rule they have to follow will, likewise, be so precise, and their duty so imperative, that mismanagement will be rendered impossible;—their business will be little more than mechanical; the thing will work of itself; and we cannot conceive what circumstances can derange it. The commissioners being bound by act of parliament to regulate their issues so as to keep the national currency within a trifling fraction of par, by increasing or diminishing it according to the average price of gold during certain definite periods, the paper could only be discredited by a gross and open neglect of duty on the part of these officers, for which they would be immediately summoned to account before a committee of Parliament, or a solemn act of the national legislature removing the check imposed by law to its over-issue. And in these days the public have such vast control over the proceedings of the legislature, that it would be absurd to contemplate the possibility of a conspiracy between the three estates of the realm openly and in the face of the nation to depreciate its legal tender. It should be remembered by those who are alarmed by this idea of possible depreciation, that under the present system, and every system of which instantaneous convertibility on demand is the basis, the evil they profess to dread *is constantly* at work. Depreciations and appreciations are now taking place alternately, in silence and secrecy. Even one of Mr. Rothschild's financial operations may, by the export or import of so much bullion, suddenly contract or expand our metropolitan circulation by half a million or a million in a day, and influence the prices of every market and the results of every speculation. Mr. Tooke is one who urges this supposed risk of over-issue as the only drawback to the advantages of a state paper issue. With that exception, in the following remarks I agree entirely with him:—

‘But for the danger of making the paper circulation subservient to the purposes of finance, I should say that all paper-money ought to be issued by government, just upon the same ground that coin is so issued as the exclusive privilege of the state.’ (3934.)—‘Is a bank note anything more than a piece of paper representing the credit of the person who issues it, and who is eventually obliged to pay it in the legal coin of the realm? Yes, it is more than that; because, for the purpose of currency, by the very definition of the term, it should pass from hand

to hand without an examination of the credit of the party issuing it. *The whole question of currency is one of convenience.* It is a very inconvenient thing that in each transaction of purchase and sale through the medium of what is considered money, there should be any question at all of the credit of the party issuing it. There is no question upon the value of coin, and the note that passes as a bank note should pass as current as the coin.' (3941.)

The question is in truth here rested on its true grounds. The real analogy between minting coin and issuing paper-money to replace it, is apt, at first sight, to be overlooked. But it is, in fact, complete. There can be no reason why a government should interfere so far with the liberty of the subject, as to interdict any merchant, banker, or other party from striking his own gold and silver tokens, which may not equally be applied to his issue of paper-money. There is no doubt that coin minted by a banker would circulate more readily than that stamped by a private individual. A joint-stock bank sovereign would be preferred by the public to a private banker's. The Bank of England token would drive the others out of the market; and a government coinage will be reckoned safer and be more readily circulated than any. And, *therefore*, government in the execution of its duty of providing the best form of currency for the country, properly takes to itself the business of minting coin, and prohibits its issue by any other party, in order to prevent the inconvenience of a mixed coinage, and the greater risks to which the public would be exposed of suffering from false money. Now, all this seems to be equally conclusive in the case of paper-money. The notes of a private bank form a preferable currency to the bills of private individuals (such as circulated lately to a great extent in Lancashire and Yorkshire). Those of a large joint-stock bank may be still better, and the Bank of England notes even more desirable as a circulation than these. And yet, if it should appear that the issue of a national bank would form a still better instrument than the best of these for conducting the transactions of the country, both public and private—would afford greater convenience and security to the public, and maintain a greater steadiness of value—it would unquestionably become the duty of the legislature to afford this most eligible kind of circulation, and to prevent any less desirable one being palmed off upon the ignorant part of the community;—and the benefit would seem to be full as great in the case of paper as of coin. In addition to greater convenience, all risk of loss through the failure of banks would be avoided, and consequently all discredit attaching to the paper. Political discredit (which nothing else can prevent) would be equally annihilated; and the security it would afford to commerce and industry against

fluctuations in prices—from which they suffer so severely—would combine to render such a medium of exchange the greatest blessing that can be conferred on a mercantile and highly advanced community.

I have not yet mentioned one of the most prominent advantages of a national circulation,—the profit derivable from it to the nation. In undertaking, for the public benefit, the exclusive coinage of metallic money, the government submits to a heavy and uncompensated expense. By assuming, on at least equally strong grounds of expediency, the exclusive coinage of paper-money, it would derive a very considerable revenue from the profits of the undertaking. In fact, the profit which the Bank of England clears from its circulation justly belongs to the public. The notes of that company represent the credit, not so much of the Bank as of the nation to which its capital is lent. The Bank trades upon the national credit, and coins it into money: but it is difficult to perceive why the nation at large should not have the benefit of the profit to be made by the employment of its own credit as a circulating medium. Nor is this profit of a trifling amount. The Bank of England calculates the cost of its notes (which are never re-issued), stamp-duty included, to be one per cent. on its circulation; and the bullion reserve as one per cent. more; so that, supposing the charge made to those bankers who would employ the notes to be three per cent. (which is that now made to country banks who circulate the Bank of England notes), the net profit is but one per cent., or 200,000*l.* on an issue of 20,000,000*l.* But a national bank, based on the principle here proposed, would need no reserve of bullion. This would at once double the profit; and if the circulation extended itself into the country, and replaced, as there is little doubt it would, the gold now circulating there, and enlarged itself moreover, to meet the enlargement which may justly be anticipated under a steady, secure, and sufficient currency, in the productiveness and wealth of the kingdom—it may be expected to average forty rather than twenty millions on the whole, and to produce a net revenue of perhaps 800,000*l.*; an addition to the national resources by no means to be despised in these days of minute economy. The disuse of gold coin will occasion a further saving of the cost of its wear and tear, amounting to about a quarter per cent. So that the total of gain would scarcely fall within a million.

As to the alleged necessity of maintaining a certain quantity of gold in circulation, which will, we know, be objected by many persons to a plan for superseding all gold currency by giving the public the offer of a preferable instrument,—I have always held

it to be the most groundless of the whole stock of fallacies afloat on this great question. The mass of retail dealings throughout the country is carried on in parcels of money under five pounds and above twenty shillings. And so long as the law prohibits the circulation of notes below five-pounds, gold of course must be employed in circulation to a very considerable extent. But not a single sovereign will be at any time out beyond the number absolutely required to perform this function; so that were any extraordinary demand for gold to come suddenly upon the banks through a commercial or political discredit, there will not be a single sovereign to spare to supply this new demand, for which the banks must have immediate recourse to the Bank of England, just the same as if there was not a sovereign in circulation.

The idea, however, is, that one-pound notes give occasion to panic and runs, through their being chiefly in the hands of the ignorant and poorer classes. The country bankers object to them on this ground. And nothing can be more just than the objection as applied to *their* one-pound notes made *payable on demand in gold*. But remove the elements of danger by making the country banks, if they continue to issue their own notes, deposit with government good security that they shall be paid in national notes, the legal tender,—and it becomes as impossible that their notes should be discredited as those of the state. Distrust will never show itself, and a costly circulation of sovereigns will be rendered unnecessary. The advantages of a circulation of small notes are greater than would seem at first sight. Mr. Gurney justly observes (3677), ‘It not only creates an additional capital to its whole extent, but the benefit of it is much beyond the mere application of that capital.’ It is the withdrawal of the one-pound notes which, more than any other of the legislative mistakes on this subject, has starved the circulation of England; and every dealer in every remote corner of the country is aware of the fact, and has sensibly felt its truth. In Cornwall to this moment there is a one-pound note circulation amongst the miners, who connect their prosperity with them, and take care they are never returned to the banks. The wise determination of the Scotch to preserve their small note circulation, spoken through the voice of Malachi Malagrowther, is not yet forgotten. Nothing, however, can be less correct than the notion that the existence of these small notes necessarily induces over-issue. If a bank is inclined to issue incautiously and on fictitious securities, (and so long as any individual may set up as a banker who can pay the stamp-duty on his notes, there must be such banks), it will not be prevented by the prohibition of one-pound notes. There were no small notes in 1792, yet fully *one-third* of the country banks then in existence became bankrupt! There were no country bank-notes whatever in Lancashire in 1823—5;

yet the over-issue of fictitious paper, in the form of bills, and the speculation and overtrading carried on upon them, are described by Mr. Smith (4364—4399) as having exceeded in their wildness, and in the violence of the subsequent recoil, anything which occurred at that period in any other part of England. On the other hand, in Scotland, where one-pound notes then and always circulated, not a bank has broken through all the trying catastrophes of the last twenty years. Let us not then commit the folly of renouncing the use of a good thing because it has been abused. Small notes issued by weak banks are undoubtedly injurious in every way; but so are five pound notes and bills under the same circumstances. They are, however, a great convenience; and if nothing is easier than to render them as safe and as unquestionable as sovereigns, why not avail ourselves of the advantages which they possess over a costly, cumbrous, and dangerous circulation of metal?

That no solid objection can be advanced to a state-paper issue, may be deduced from the admissions of the Bank directors themselves—the parties who might be supposed most hostile to a transfer of their authority and influence to any other body. It may almost be inferred, from several of his answers, that the present governor, Mr. Palmer, in his private opinion, is convinced that it will be the duty of government to take this great state engine into their own hands; though he may consider that his situation precludes him from openly declaring views which might prejudice his proprietary. The only reason given by him for preferring a commercial company as the central source of the circulation to a state bank is, that the former, he thinks, would have more power of affording assistance to the commercial world at times of general embarrassment (550). He acknowledges, however, that government could afford this aid equally if they choose (565-7); but thinks it important, ‘that it should be afforded by a body independent of any *political* connexions.’ Surely, it must be equally, or still more, important that it should be supplied by a body independent of all *commercial* connexions. Here is a body of commercial men claiming to have a public power lodged in their hands of selecting what houses or individuals they may choose to rescue from ruin at a moment of general commercial embarrassment! Mr. Norman, a director, is more modest: he says—

‘There *may* be some advantage in having one large body in times of commercial distress, of very undoubted solidity, whose credit shall ride over that of even the best-conducted and most wealthy private establishments; but I am hardly able to estimate the precise extent of that advantage.’

The public will probably agree with Mr. Tooke, that—

‘It is the business of a bank that administers a paper currency, to

have no other end in view than that of preserving its value strictly, correctly, and invariably upon a level with the value of gold; and any assistance to trade, or any assistance to government, involving an increase of issue not called for by the wants of the circulation, is a departure from the legitimate objects of the institution (3830).—Do you not think it advantageous that, if a bank has immense resources, it should occasionally apply those resources to the assistance of commerce? I cannot easily conceive a state of things, in which, without previous misconduct in the Bank and the banking establishments generally, there can be any need by the commerce of the country of such assistance. I should say, the circulation ought not to be connected with any attempts at assisting commerce.'

In fact the knowledge of the existence of such a resource as the *Deus ex machinâ* of Threadneedle Street against emergencies brought on by general imprudence, decidedly tends to lull caution to sleep, and induce the very catastrophes in question. The sufferings of individuals through their own false calculations, however severe, are salutary lessons. If the Bank is to continue to upset all possible calculations by its capricious action, it may be well that the Bank provide what alleviation it can to the evils of which it is the cause. But, with a sound, steady, and unvarying currency, any general commercial distress can only be the consequence of general commercial incaution and feverish excitement: and the true way to prevent such misfortunes is, not to hold out the hope of evading them at the last moment by foreign aid, but to make it clear, that nothing but strict prudence can parry them. In short, no feather-bed should be provided at the public expense for those who expose themselves to break their skulls on the flag-stones by a frantic dance upon the parapets of their houses. Least of all should the administration of the feather-beds be confided to men whose connexions are likely to be engaged in the dance.

The directors of the Bank would, I imagine, feel great satisfaction on being relieved from their present irksome, invidious, and perplexing position, of which the honour and extraordinary powers can scarcely compensate the anxieties and responsibility. The directors of a National Bank, appointed *ad hoc*, would have but one plain duty to perform: to follow the strict line of conduct laid down for their guidance, and in whatever may be left to their discretion, to look to the public interests, and those alone, under all possible circumstances. *They* will not, like the present anomalous body, attempt to serve two masters—the paid and sworn agents of a private money-dealing company, yet conscious of a moral responsibility to the public, upon whom their proceedings tell with such overwhelming force. *They* will never be placed, like these gentlemen, between two conflicting duties, to their employers and to the public; or feel compelled, by their oaths of

fidelity to the interests of the former, to disregard the national welfare whenever an additional dividend is to be made at the risk of a great public injury.

For the reasons here offered, I am inclined to concur then with the Bank directors and bankers of London, in the opinion that a great central metropolitan establishment, for the supply of that kind of circulation which ample experience has proved to be so much more convenient for the purposes of commerce than either gold or private bills, viz. paper-money, would be preferable to a rivalry of joint stock bank-issues. But, that to give this paper-money the characters it ought to possess, of unquestionable security, and steadiness of value in relation *both to gold and commodities at large*—to maintain it constantly *at the par value with the gold standard, taking the average of short periods*,—but, at the same time, to prevent its fluctuating, as now, in amount and value, with every temporary variation in the demand for that particular metal which arises from its habitual employment in financial, military, and commercial operations between nation and nation,—the paper should be issued by a national bank, managed by commissioners appointed and removable by parliament; or under such other checks as may secure them from government influence;—this national paper being made legal tender, and taken, of course, in payment of the debt and taxes.

The arrangements by which the national notes might be substituted for those of the Bank of England now circulating, and issued through purchases of Exchequer Bills or other government securities, and in payment of the dividends,—would present few, if any, difficulties. The business of banking for private individuals, and of making advances upon discount or loan, would be left in the hands of the private bankers of the metropolis, who, by the admission of the directors, are much more competent to afford the requisite accommodation of this kind to the public than any larger establishment. The national bank would afford a place of safe deposit for the unemployed monies of the London bankers, but I think it questionable whether it should open a deposit and drawing account with individuals.

The only additional consideration which might have led me to hesitate in thus giving the preference to a single national bank for the metropolis, over a competition of joint-stock banks, is a fear that the valuable system of cash credits, and interest on private deposits, can never be adopted by bankers in London that do not issue their own notes. We are told by Mr. Glynn, that the only London bankers who have attempted to give interest have invariably failed. (2863). Great as would be the benefit derivable on this account from the establishment of joint-stock note-issuing banks in London, from whom competition would necessarily

enforce the utmost possible accommodation to the public on the cheapest terms consistent with safety and moderate profits—yet the balance of advantages preponderates so much in favour of a national currency, as to leave little doubt upon my mind, with respect to the circulation of the metropolis and its environs.

Whether private and joint-stock banks should be permitted to supply the circulation of the country, or that the attempt should be made gradually to replace all paper payable on demand, by an extension of the national notes throughout the kingdom, is a further question that admits of greater doubt. The argument just used, with respect to the superior accommodation afforded to industry by bankers issuing their own paper, applies with far greater force to the country, more especially to its remote agricultural districts, than to the metropolis; at the same time that the objections to private paper, if duly guaranteed, are in a similar degree lessened. The issue of notes, and the business of banking, are, it is true, perfectly distinct, even when carried on together, as Mr. Loyd justly remarks (3380). But inasmuch as the establishment of a bank entails considerable expense in offices, clerks, &c. and can only be carried on by persons of superior credit, connexions, experience, and capacity, these most useful contrivances for facilitating all monetary transactions will not, it may be feared, maintain themselves in thinly-peopled districts, where, however, it is most desirable that they should be found—unless the profit derivable from the issue of notes comes in aid of that which arises from the ordinary business of banking.

Upon this point many of the gentlemen examined by the committee speak very decidedly. Mr. Burgess, the secretary of the committee of country bankers, than whom no person is better acquainted with the character of the country banking business, gives his opinion that—

‘To prevent the issue of notes by country bankers would throw extraordinary impediments in the way of the internal commerce of the country, because those bankers are brokers of capital, and by depriving them of the convenience and profit derived from the issue of their notes, many of them would cease to be agents for borrowing or lending money. Their banks would be shut up for want of profitable business, and their customers, both borrowers and lenders, would be excluded from the advantages which they now possess; so that all the operations of industry would be impeded through those parts of the country.’

Mr. Stuckey, Mr. Gurney, and other gentlemen connected with the country banks, likewise offer their opinion that the extent of accommodation afforded by country banks very much depends on their power of issuing their own notes.* Mr. Smith is asked (4357),

* 1181-3, 1299, 1561, 1501.

‘Would a bank that issues its own notes be able to give greater accommodation to trade than one that uses the notes of another bank? No doubt of that, because it would be dependent on that other for its supply of notes.—Is it not from the profit they make on the issue of their notes that the Scotch banks are able to deal so liberally with regard to cash credits and deposits as they do now? No doubt of it.—Is it possible for banks in England, whether joint-stock or private banks, to give to trade the same degree of accommodation that is given by banks in Scotland, without issuing their own notes? No.’

On the other hand, these opinions appear to be in part contradicted by the fact that many country banks have voluntarily given up the issue of their own paper, preferring the employment of the notes of the Bank of England, and that others are preparing to follow their example.* In Lancashire, too, the notes of the Bank of England have always circulated to the complete exclusion of those of any local establishment, and yet no deficiency of accommodation has ever been experienced in that district, as compared with the rest of England. The establishment of branch banks from the Bank of England, circulating its notes, has likewise, in many places, caused a general lowering of the rate of discount, and an increase of the accommodation afforded to trade (1513); facts which do not appear very consistent with the opinions we have just quoted. Again, Mr. Wilkins, himself a country banker of long standing in Glamorganshire, declares,

‘that the country banker, in consequence of the reduction of his capital, and his want of confidence in the neighbourhood, does not, and will not, make those advances which are necessary for the necessities of the country.’ (1804.)

He thinks that a joint-stock company, circulating the notes of the Bank of England, would afford to the public twice or three times the extent of accommodation now afforded by the private banks of his district (1809, 1875); would do the business of the country better and cheaper, and give much better security for the money in its hands (1839). The far greater confidence the country would have in such a bank, by increasing their deposits, would be the cause of its possessing superior means to those of private establishments, whose credit is little known beyond a very limited space (1849). There is much in these opinions that is well worthy of attention.

On the whole it would not seem to be advisable at once to interdict the issue of notes by private firms in the country, but to provide only such complete security for the payment of their notes, as will save the holders from all possible loss, and the country from the evils of panic. It is true the committee of country bankers have declared through Mr. Burgess (5143), that rather than give security for their promissory notes, they would relinquish the practice of

issuing them. But if they are really in earnest in this, it proves undeniably, that this part of their business can bring in very little profit, and consequently that it is not necessary to enable them to maintain the intrinsically valuable portion, their banking-business, properly so called. We cannot think that it would be any hardship on a private bank that security be required for its issues. The security consisting of stock, exchequer-bills, land-mortgages, &c., would continue to bear interest; it would be merely held in pledge by government for the payment of the bank notes. If the partners of a banking firm are possessed of considerable property, it can be very little inconvenience to them to pledge it in this manner. If they are not possessed of ample property, they ought not to be allowed to inundate the country with paper, representing a credit which is not justly their due. When their notes are thus effectually guaranteed, they might be received in local payments of the revenue, as the Bank of England notes now are; and this privilege may serve to reconcile them to the exaction of security.

At the same time there should be no limitation as to the number of partners in any banking company. If the notes of an individual banker are allowed to be payable in London, there can be no just or reasonable ground for denying this privilege to those of a bank founded on broader responsibility, and consequently offering a better form of credit circulation to the public. The reservation by which, in 1826, the Bank of England contrived to interdict joint-stock banks, formed in the country, from drawing bills on London under 50*l.*, almost wholly neutralized the benefits expected from that concession. Why the weaker establishments are allowed a power which is refused to the stronger, it would indeed be difficult to explain.

With regard to the regulation of joint-stock banks, the propositions submitted to government by a deputation from the Manchester and Liverpool banks (4197) seem to be well considered, and fitted to accomplish the great end which all our efforts to improve the banking system should keep in view—the discouragement of weak banks, and the encouragement of sound banking establishments, which shall spread their ramifications through every part of the country, offering to every one a safe place of deposit, at a moderate rate of interest, for the savings of his industry;—and affording aid to every one who requires only monied capital to turn his advantages of skill and position to a profitable account;—preventing any waste of capital in the one quarter, or of labour and productive capacity in another;—facilitating the interchange of commodities and of services, and thereby materially aiding to develope the resources and augment the aggregate productiveness of the country.

Since the notes of all country banks would be payable in national notes, the latter would maintain the same predominance and governing power over the amount of the former, as is now exercised by the notes of the Bank of England. The contraction or expansion of the metropolitan circulation would be followed, as now, by a parallel reduction or extension of the country circulation; and if the process were somewhat slower than it would be in the case of one uniform circulation proceeding solely from the central establishment, this, instead of a disadvantage, would be productive of good, by softening the shock and bringing about the change by degrees.

The measures, therefore, which on the foregoing grounds I should venture to recommend to the adoption—or, at least, to the candid consideration,—of those by whom our monetary system is now about to be remodelled—are

1. The substitution of the ancient silver standard, in use previous to 1773, for the far more vacillating gold standard of 1819.
2. The substitution, for the Bank of England, of a National Bank, or Board of Metropolitan Note-issue. Its notes being made legal tender; and their par value preserved, not by unlimited convertibility, on demand, *at the source of issue*; but by securing their convertibility, *in the bullion market*, to any extent that can be required to satisfy the legitimate demands of commerce or finance, by making it the imperative duty of the Board to regulate their paper-issue, from time to time, by the price of the standard metal.
3. That the issue of country paper should be permitted only against an equal paid-up capital, or deposit of property as security for its payment.
4. That a tabular statement of the average price of the mass of commodities be published at proper intervals, by competent authority, as *a standard of exchangeable value*, by reference to which the public may be enabled to detect, at a glance, all future variations in the value of the legal standard.

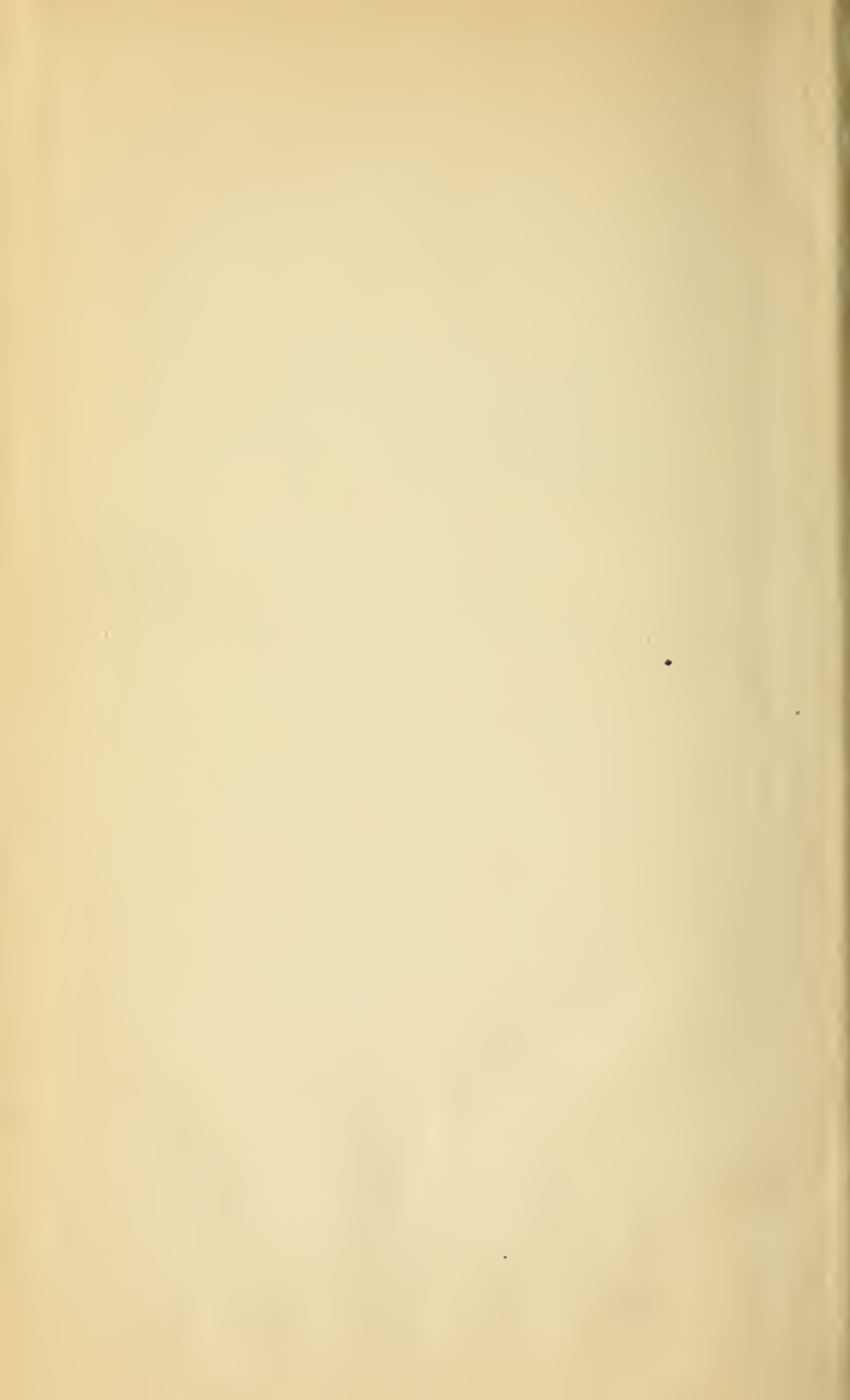
These improvements combined, will, I am inclined to think,—and these only,—afford to this great, industrious, and commercial people, what it has a right to demand—an *ample supply* of a *perfectly secure* medium of exchange; and, if not a complete invariability in its value, as near an approximation to this important quality as is obtainable, together with the means of detecting and guarding against any injury from such variations as are inherent in every standard measure of value which consists of but a single commodity.

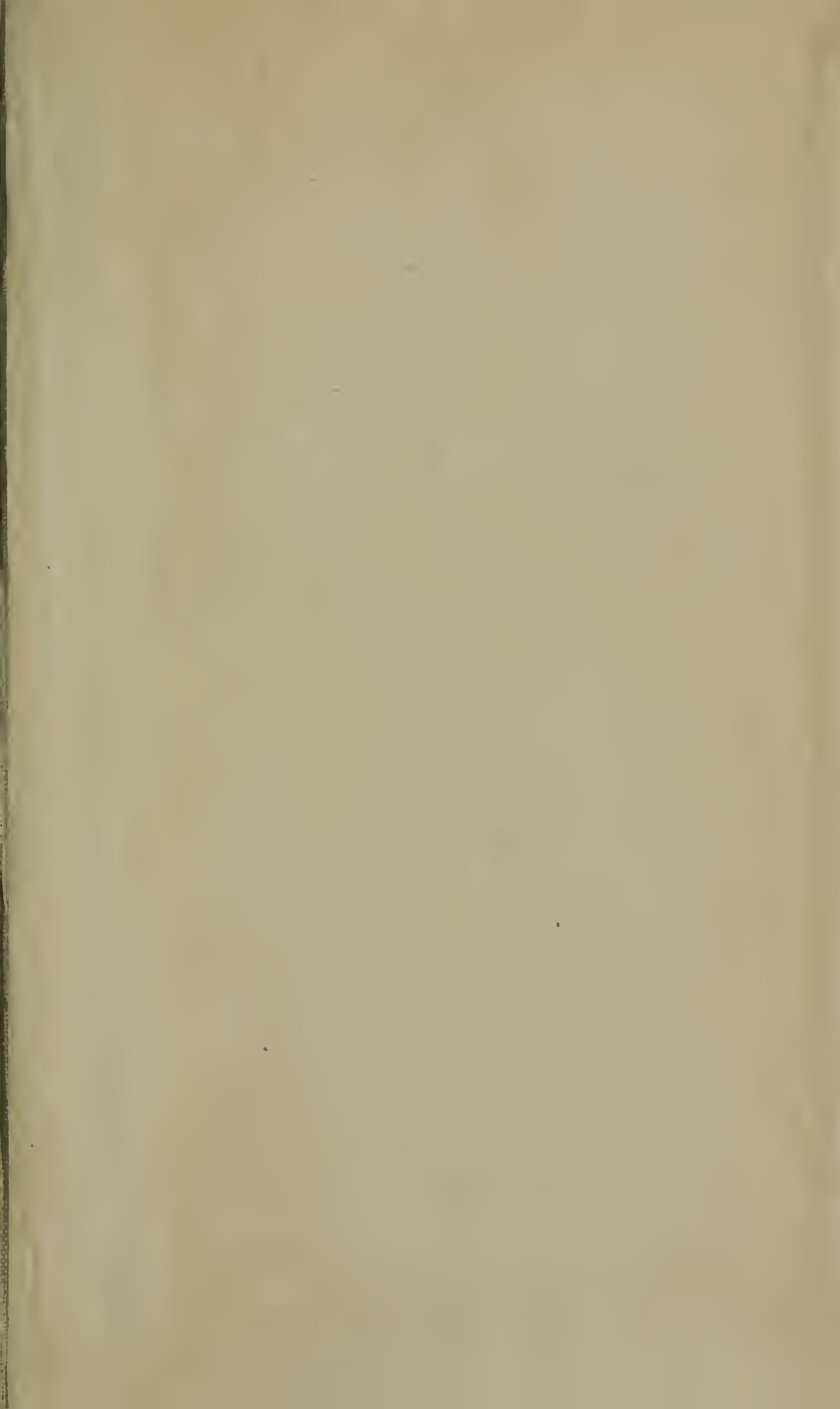
It is, however, not impossible that the prejudices and the carelessness of the public on this most important subject may render impracticable the carrying at once into effect so great an innovation upon established notions as an inconvertible national paper currency. Should this be the fact—and should the power of the monied interest and bankers prove so great as to render a temporary continuance of the Bank of England in some form unavoidable—it is to be hoped that the unanswerable objections to which the present gold standard is liable will be admitted, and a return made to the ancient silver standard, leaving gold (as in every other commercial state) to find its level through an agio—that the Bank of England will be required to publish its accounts periodically, and to pay to the public a stamp-duty of, at least, one per cent. per annum on its notes in circulation,—that joint-stock country banks will be permitted to pay their notes in London,—and that all country banks will be required to deposit security for their issues of paper. Such a system, though far inferior, in the opinion of the writer, to that suggested above,—(which sooner or later will, he is confident, be resorted to by all civilized and commercial states,)—would be an immense improvement upon the present.

Any arrangement with the Bank of England short of this—any settlement of the laws controlling the free circulation of credit in this great commercial empire, which secures less to the public than these last conditions, will bear the aspect either of so flagrant a job, or so frightful a blunder, as must, before long, subject its authors, and the legislature by which it should be passed, to the scorn and execration of the community—if not to a still heavier chastisement.

THE END.

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